Younger Consumers' Demands Push Insurers to Break the Traditional Business Model Molds

By Richard Daukant

For decades, the insurance industry used tried and true business models to meet customer needs, make profits, expand business, reduce risk, and satisfy regulatory requirements – all while remaining one step ahead of the competition. But now, rapid and shifting changes in the global marketplace have forced insurance carriers to abandon the traditional ways of doing business.

More and more, they are looking to information technology to help them adapt to new business challenges. Among these challenges are increased pressure for profitability and revenue growth, risk management, and growing customer demands for online quotations, one-stop shopping, and faster introduction of new products and services.

And in the years to come, much more radical consumer behavior patterns will be driven out of Generation NOW, today's teenagers who are the first generation to grow up with the Internet, cell phones, instant messaging, microwave ovens, MP3 players, and other technological advances, and to whom an insurance company is a Web site. Driven by a spirit of spontaneity, this generation doesn't just seize the day, they seize the *moment* and, as a result, insurers must gear up to meet the demands this sense of immediacy brings.

But the "digital divide" between generations is narrowing since older generations also want products and services as quickly and efficiently as technology can deliver them. This disruptive industry trend, fueled by a more customer-centric approach, raises the bar for insurers and leads to a steeper competitive landscape.

Reaching Generation NOW

To reach the "now" generation, for example, insurers must carefully consider how this generation grew up and how it was educated – virtuality is part of their daily routine from doing homework to buying concert tickets. No matter where in the world, part of the generation's DNA is that its members have shorter attention spans (i.e., an average of 10 minutes versus older generations who have three times that) and as a result, want individualized offerings and immediate service, and have no qualms about changing brands just as fast and as easily.

Insurers must also keep in mind that their agents and brokers are also part of this generation themselves – or close to it. So, to reach current and new customers and retain the loyalty of both, as well as train and develop their agents and brokers, insurers must be willing to use new communications channels. Among these channels are advertising on social networks like MySpace, Facebook, and links to the companies' own direct sales Web sites, such as U.S.-based Unitrin Direct and South Africa's Metropolitan Cover2Go.

Another way to reach this consumer set are Web sites that allow techno-savvy consumers to compare rates and services of various companies and close contracts with the click of a mouse. One day, in the not too distant future, consumers will be able to shop commodity insurance much like one now shops for songs on iTunes and agents and brokers can download product and services updates from their iPod. Right now, in South Africa, consumers can buy insurance and even do their banking right from a mobile phone!

Some of the new players are focusing on a specific core area. For example, retailers like C&A, a German clothing store, or Tesco in the United Kingdom, which are close to their customers and their buying habits, enabling them to expand their customer offerings by selling them insurance, based on this data. Other insurers – the global insurance players – are doing things differently. Basically, many of them are trying to own the complete value chain. They manage to grow significantly by providing full customer offerings and realizing synergies by scale. This, in turn, raises customer expectations. Though on the surface level they seem to have a different strategy, such global insurance carriers have the same internal operations. The difference is better internal collaboration to leverage specialization in certain areas of the value chain.

If we have these new players creating new business models, what does it mean for the full value chain? Simply, it means that to be successful, these players have to collaborate more strongly than in the past. For example, new products that are distributed through primary insurers (white labels) must collaborate with distribution channels (e.g., retailers or bank assurance). So, the market forces specialization and this specialization requires networking. And networking brings success in the new global playing field.

Based on these changes in the industry, those insurers who will be successful will be the ones who have the foresight to modify and extend traditional strategies and business models and who are nimble enough to respond at the ever-increasing speed of change.

The traditional insurance value chain had the primary insurance company at its center. Interactions were with other players on the market distribution side, as well as capital markets, regulatory agencies, and of course, the customer. This value chain has proven to be successful for insurers, but with new changes in the market place, change must happen here. Increasingly demanding customers are forcing new players to enter the field and as a result, new business models are created. The "tried and true" models of the past, used by companies both small and large, tended to focus on the same core competencies, leaving little room for differentiation and specialization.

Insurers of all sizes may vary in their lines of business (e.g., life, health, casualty, property), but their business requirements share common ground, and all are finding it's getting harder to build long-term, profitable customer engagements. With new demands, IT innovations, and tougher competition, differentiation – that is, focusing on one or several specific core business areas – is more than a necessity.

Unleashing the network advantage

Global market change and new business requirements underscore the need for *rapid* adaptability of information technology structures and process boundaries. Therefore, insurers need information technology that supports or even drives the necessary innovative changes and allows companies to glide over speed bumps and emerge unscathed and well-equipped for future challenges.

However, the IT landscape of insurance companies is characterized by a high degree of diversity and specialization. And IT, in itself, is as ephemeral as the marketplace and will require significant standardization.

A recent report by TowerGroup Research cites three priorities that will be at the forefront of the insurance industry in the year ahead: enterprise business and IT alignment, service-oriented architecture (SOA), and customer intimacy.

Right now, the report says, few insurers are emphasizing business architecture, even though business objectives should be tightly wedded to IT assets and investments. Those who lag behind must be accountable for the lack of IT investments in development and set a strong strategic direction for the enterprise instead of setting priorities by operational silos.

It's a simple formula. When companies align business objectives with technology across the enterprise, they reap the biggest benefits and face their customers -- and their competitors -- with faster response to changing business needs, leveraging of existing IT assets, improved productivity, reduced costs and a streamlined global supply chain.

Historically, insurers have not achieved the full benefit of process improvements in critical areas, such as claims, policy administration, premium billing, financial accounting, vendor management and underwriting. They have lacked critical technologies for improving infrastructure and enabling an SOA architecture and business applications that meet industry requirements.

As a result of this and the siloed nature of insurers in general, much data has been lost, not captured or gone unused as intelligence that insurers could leverage to maximize their business advantage. Sometimes this is boiled down to this*: information is power*. However, in this business context it is better to say: *information is business success*.

Turning ideas into reality

So, with greater customer demands and new players and business models forcing specialization and specialization forcing collaboration and collaboration forcing networking, the key to an insurer's survival is a different IT architecture to help support changing business processes and linking them to the right level of information.

What is needed in today's networked world is an IT architecture that is more modular, and as stated above, one that allows and drives more standardization to provide one-stop, customer-oriented information -- *complete* information -- across the full value chain.

Without such an architecture to support a multi-channel sales approach and enable more rapid process adaptability, the insurer will not be able to meet the different customer demands.

In addition, such a platform should provide efficient, end-to-end processing across silos and company boundaries. It should come as well with strong workflow and configurable business-rules engines for such functions as auto assignment and event triggers. There should also be cutting-edge tools for administration, networking and collaboration with both internal and external resources and for managing various stakeholders in the insurance value chain.

SAP provides insurance solutions and enterprise management solutions created on a single, scalable SOA business process platform enabling insurers to capture business opportunities through co-innovation with SAP and its eco-system of partners. This risk-controlled innovation environment is very unique and based on recomposing existing systems and adding selected new services - resulting in sustainable cost structures.

Enabling insurers to build a business process platform, SAP is built around the Enterprise Service Repository, the central directory for all enterprise management and insurance - specific enterprise services. While an Enterprise Service Repository is a pivotal element of a SOA- enabled business process platform, SAP goes far beyond this by providing the business process components actually implementing and delivering the enterprise services. Its technical foundation is the SAP NetWeaver™, a comprehensive integration and application platform that enables partners and customers to design and build specific, value adding add-ons.

With SOA, networked insurers will be able to facilitate collaboration, provide full visibility into enterprise data, and improve speed and flexibility across generic and insurance-specific processes. The focus on integrated solutions and processes creates a single view of customers across all delivery channels, eliminating the silos of customer data in many existing systems, and helping insurers maximize opportunities for cross-selling. In addition, Web-based, enterprise-portal capabilities can significantly streamline distribution and provide mobile support for agents, brokers, and other service providers.

Becoming a networked insurer will give such companies the opportunity to use technology to innovate and compete on a global scale and reap such rewards as:

- Optimal business and IT governance as group wide strategies are rolled out, resulting in a low total cost of IT ownership
- The development of innovative products with competitive pricing that sustain profitable growth
- Optimized business processes and maximum operation efficiency across lines of business and geographic locations that result in lower expenses
- The ability to balance multichannel distribution to increase wallet share
- Improved relationships with agents and brokers
- Multi-line, product -driven policy management

- Reduced costs for claims servicing that help lower costs for claims overall
- Improved satisfaction among your claims-servicing partners - *and* your customers among *all* generations – right here, right *now*.

Having insurance-specific solutions to build upon a flexible and scalable platform provides the foundation for addressing the many challenges faced by insurers, from increased pressure for profitability and revenue growth to faster introduction of new products and services. Change is never easy, but to stand complacent and steeped in tradition without an eye toward innovation in today's market is to lag behind. The good news is that insurance providers that persevere can make the leap -- and reap these rewards in this decade and beyond, for this Generation NOW and those whose future demands are yet unknown.

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