Insurance 2020

Innovating beyond old models

Over the ensuing decades, it is easy to see the potential for robust market activity in the insurance industry. The combination of classic protection products and an increasing number of financial services in an expanding global economy creates a target-rich environment. Traditionally, the task going forward would be to navigate the opportunities while efficiently servicing stakeholders. However, as we approach the end of the first decade of a new century, it is important to increase the scope of our vision and consider what the insurance industry could become.

There is a concern that the current mode of operations, regardless of the line of business in question, will reach a point of diminishing returns in the near term. The aggregate capabilities of current technologies and the unexplored potential of emergent ones almost guarantee that the next several years will mark a fundamental change in the insurance industry. The question is how can insurance carriers profit from these changes? How can consumers be better served?

To gain a perspective on future challenges and strategies, the IBM Institute for Business Value conducted interviews and market research among global industry executives. Our analysis identified four large-scale trends that will likely confront insurers in the year 2020:

- **Active and informed consumers across demographic groups reward nontraditional operators** – The impact of modern information networks and the ongoing transfer of financial responsibility to end customers will drive attitudes regarding increased services and convenience. Applicants and policyholders from a range of demographic groups will give business to carriers that consistently meet their expectations.

- **Technology virtualizes the value chain and lowers barriers to entry** – The rising tide of technology will enable an increasing number of niche service providers from inside and outside of the traditional value chain. The 15-year time frame will inevitably produce a greater number of partially and even totally virtual insurance companies to meet the needs of consumers and businesses.

- **Mainstream insurance products are dynamic and provide more consistent performance** – Dealing with a global population that eagerly consumes and thrives on communication and personalization will drive carriers to develop products that are flexible and adaptable. The aforementioned rising tide of technology also empowers insurance underwriters to bring their products closer to realtime interaction via sensor networks and enlightened privacy regulations.

- **Regulatory coordination and use of affirmed industry standards broaden to global scales** – The globalization of all industries and the need for efficiency drives the coordination of consumer and business protection across geographies. The same search for efficiency drives increasing automation, which demands industry standardization.
Given these impending realities, simply optimizing today's "business as usual" will not be enough to create value and achieve success in 2020. The implications of these trends suggest that:

- **Innovation will be required** – The four mega-trends will force the industry to change and innovate because they will not be denied. By this we mean that even though a carrier could ignore changes in demographics, or stick to a traditional value chain, there will be an increasing number of companies that will react to these changes, produce innovative services around them and profit by doing so.

- **Old modes of thinking threaten the industry's ability to innovate** – The current operational mode among the majority of carriers is deeply rooted in the past. The fallback position or retort for this behavior is that it has provided relative security over time. The problem is that we are now in an era in which technology can transcend nagging industry problems and change the game.

- **Interlopers will increasingly disrupt traditional insurance operations** – Around the world, traditional carriers have integrated banking and insurance services to deliver what is commonly known as bancassurance. Its success varies from geography to geography, but where it works at all, it usually works quite well. This is an example of an interloper (banks) integrating their current service offerings. Over the next 15 years, we expect that technology will enable a broader class of enterprises that provide parallel products and services. Insurance carriers will need strategies to deal with these market intruders as competitors or as partners.

- **Industry leadership will require experimentation in operating models, processes, products and customer relationships** – One of the most important research findings is the need for experimentation to develop and nurture new ideas. Without experimentation, insurers will be caught in the old cycle of process optimization. This has gone on for so many years that it has developed into a proxy for innovation.

- **Strategic investment in innovation today is critical to success in 2020** – Executives need to provide the leadership within their companies to emphasize the importance of innovation, especially when insurers need to create new business models. Investing in innovation also means committing to the creation of flexible and adaptable IT infrastructures. These empower an organization to take advantage of opportunities as they occur.

The potential for a dynamic and successful future within insurance is clear, and the advantage will go to those that start building a more innovative position now.

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