The network revolution and the new insurance ecosystem

1 of 3

Creating value through connectivity
As we know, the face of business today is being redefined by advances in digital technology, fundamentally disrupting how organizations serve customers and fulfill human needs. Customers now expect goods and service providers to intuitively understand their needs and to serve those needs proactively. The upside of this disruption is the opening up of new opportunities for organizations to refine their market segmentation, offerings and distribution models. In doing so, traditional industry borders are falling away as networks of interconnected businesses emerge, where customers are at the epicenter of the economy and value is created through connectivity and collaboration. In this series, we will focus on the impact this phenomenon is having on Insurers as they come under threat from organizations and industries they never previously viewed as competitors.

We've seen these sharing and collaboration practices extend to transportation (Uber), hotels (Airbnb), financing (Kickstarter, LendingClub) and music services (Spotify), but most recently insurance – the age-old industry that has managed to remain fairly resilient against the forces of disruption. That is, until now.

Customers want the same level of personalization, convenience, meaningful interactions and transparency for their insurance needs as they already receive in other facets of their life. They also want a more streamlined, efficient decision-making journey where everything they need and want is available in one place, through a single port of access. Consequently, the insurance industry is experiencing a paradigm shift which focuses on risk mitigation and prevention, rather than traditional financial compensation for a loss.

As policy holders are transformed into customers and digital connectivity is the norm, Insurers are able to interact with customers and stretch their value proposition across the entire life services spectrum, not just risk indemnification. Co-innovating with an ecosystem of partners creates new products and services, generating new and increased revenue streams. Refer to Figure 1, where in less than 10 years it's predicted that ecosystem orchestrators will categorically blur the lines of traditional industry sectors into areas as diverse as education and public service.

In general, most organizations operate in one of four business models based on the value they create:

1. **Asset builders**: build, develop, and lease physical assets to make, market, distribute, and sell physical assets. Example organizations include automobile or chemical manufacturers, retailers through to delivery businesses.

2. **Service providers**: hire employees who provide services to customers or produce billable hours for which they charge a fee. Examples include traditional insurance companies, financial services organizations and consulting firms.

3. **Technology creators**: These companies develop and sell intellectual property such as software, analytics, pharmaceuticals, and biotechnology. Examples include Microsoft and Oracle.

4. **Rattling the cages of traditional enterprise are network ecosystem orchestrators**. These organizations create a network of interconnected businesses in which the participants interact and share in the value creation for customers, end users and key stakeholders. They may sell products or services, build relationships, share advice, give reviews, collaborate, co-create and more.¹

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¹ Source: *What Airbnb, Uber, and Alibaba Have in Common*, Harvard Business Review
New ecosystems are likely to emerge in place of many traditional industries by 2025

Figure 1: Ecosystem illustration, estimated total sales in 2025,* $ trillion

Entering this new territory means Insurers need to leverage a digital platform for connectivity. Take the “connected health” ecosystem for example. The Insurer acts as a full-service health care concierge through every stage of the customer’s life. Through wearables and medical monitoring devices, customers are in control of tracking their own health information, such as weight, heart rate, blood sugar, exercise activity and much more. These devices are connected through an app, which the customer shares with the Insurer. The Insurer in turn shares this data with the network - medical practitioners, the local gym and supermarket - for monitoring and proactive action. Collaboratively and in some instances, intuitively, the network works together to help the customer lead a healthier and safer life, from scheduling medical appointments and expediting treatment through to lifestyle support by recommending meal plans, promotions on health ingredients at the grocery store, or offering discounted gym membership.

The power of a digital collaborative network is a direct result of the rise of high-speed internet and connected devices. The most common connected devices are computers and smart TVs, but over the last few years connected devices has expanded to include connected heating systems, lights, kettles, vacuum cleaners, security cameras, locks, door sensors and even babies’ dummies can be smartphone-controlled. A connected home not only creates a more intuitive life, lived more comfortably and efficiently, it also enables Insurers and the network ecosystem seamless interaction with the customer. The ecosystem can gather unprecedented data from these devices and build unique and highly personalized products and services based on what the customer actually does - not just who they are.

Insurers now, more than ever before, are at risk of losing customer relationships to organizations and ecosystems that have greater insights into customer’s needs. These organizations are strengthening their competitiveness by gaining rapid access to new pools of customers and data. But what sets them apart as leaders of the digital marketplace is how they’re translating this data into insights to boost efficiencies across their people, process, product and service, and ultimately powering best-in-class customer experiences.

This competitive advantage can only be accomplished through a cloud-based and scalable platform that allows multiple participants to connect to it, interact with one another and create and exchange value in near- to real-time. Additionally, this network-based ecosystem model requires new technologies and competencies to manage the enormous amounts of data generated by the network. However, the biggest challenge Insurers face is embracing a holistic strategy to use data to connect the dots, uncover currently dormant and underutilized networks, and put customers at the epicenter of everything they do. When the value at stake reaches into the trillions, Insurers need to ask themselves, are we giving customers what they want or what they need?

“It’s not the strongest species that survive, nor the most intelligent, but the ones most responsive to change”
Charles Darwin

*Circle sizes show approximate revenue pool sizes. Additional ecosystems are expected to emerge in addition to the those depicted; not all industries or subcategories are shown. Source: HIS World Industry Service; Panorama by McKinsey; McKinsey analysis
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1 Creating value through connectivity

2 Competing in a world of sectors without borders

3 Becoming a leader of the digital marketplace

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