

The Ambitious Insurer's Guide To New Business Models

Ambition [am'biSH(ə)n]

1a: an ardent desire for rank, fame, power

“With her talent and fierce ambition,
she became a very successful actress.”

1b: desire to achieve a particular end

2: the object of ambition

“Her ambition is to start her own firm.”

3US: a desire for activity or exertion

“felt sick and had no ambition.”

Source: Merriam-Webster



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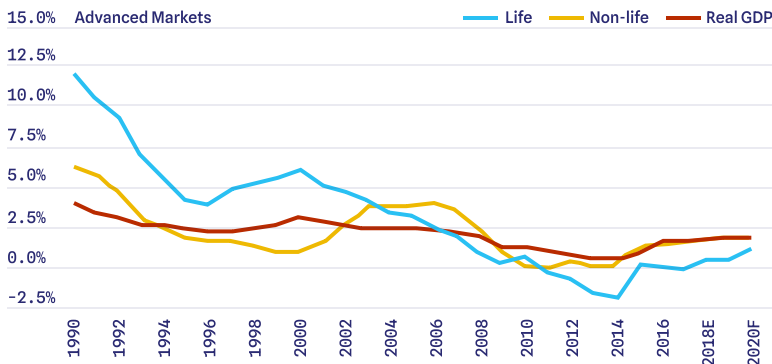


Insurance: An Industry in Crisis

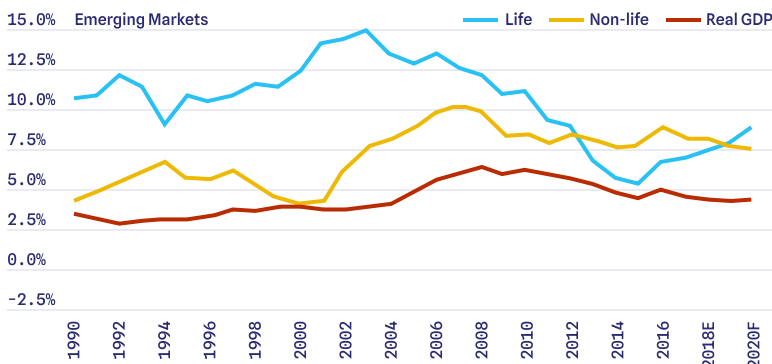
We often talk about insurance as a big industry because it's well capitalized and offers a huge benefit to society, businesses, and individuals. Insurance allows us to take on risks that we wouldn't be able to otherwise and helps us rebound from catastrophic events.

But if you really look at insurance, it's in a black hole. In certain segments it's actually been in economic decline for 30 years (see "Figure 5: Life and non-life premium growth vs. GDP growth in real terms). And in others it's clear that premium growth is distinctly opposed to true competitive growth, and where competition is high we even see insurance revenue decline overall.

Figure 5: Life and non-life premium growth vs. GDP growth in real terms (7 year moving average)



Regions:



Regions:

Source: Swiss Re Institute

“ Ambitious insurers want to break free from the norm. They want to move away from transactional, one-dimensional relationships.

They aim to meet people where they are and provide meaningful, personalized product and service experiences that solve problems, create value for customers, strengthen loyalty, and reduce churn.”

— Alec Miloslavsky CEO @ EIS



The problem in developed markets is that insurance has mostly tracked gross domestic product (GDP), and real GDP has declined. As a result, most economists and analysts believe that we're in somewhat of a stall zone right now.

Take life insurance, for example. As a percentage of the population, ownership rates are lower than they've ever been. A survey of British Millennials, those between the ages of 26 and 41, found that only 26% owned life insurance. A 2021 report from LIMRA found that life insurance levels in the United States were also at an all-time low. Across generations, just 52% of American survey participants had life insurance compared to 63% a decade ago. For Millennials, that number was 45%.

As an industry, insurers are spending more and wasting more. Gartner forecast that global IT spending within insurance would reach \$210 billion in 2021, growing to \$271 billion in 2025. Contrast that with retail, which Gartner said would reach \$193.2 billion in 2021 and an estimated \$257.1 billion by 2025.

Despite spending more, few would argue that insurance has kept pace with the advancements we've seen in the retail sector, which is establishing **experience economy** expectations for ease of use, convenience, and digitalization, as well as for the utilization of artificial intelligence.

Further, I'd argue that despite insurers' focus on process efficiency, insurers **haven't achieved much productivity gain** in the past 15 years. And yet there is a series of new technologies that could revolutionize how insurers do business. But mostly, they are sitting on the sidelines. This shouldn't be that surprising.

The problem is that legacy thinking and modern-legacy platforms – policy-centric systems built on “monolithic” architectures – are so demanding, so resource intensive, that they crowd out innovation and stifle ambition.

“...businesses must deliberately design engaging experiences that command a fee. This transition from selling services to selling experiences will be no easier for established companies to undertake and weather than the last great economic shift, from the industrial to the service economy. Unless companies want to be in a commoditized business, however, they will be compelled to upgrade their offering...”

— Harvard Business Review



New Competitive Threats

Insurance markets are boiling over with new entrants offering consumers the products, digital speed, and simplicity that people now demand. Neo carriers, microinsurers, on-demand coverage, and mobile-only carriers — most of these are small startups penetrating a market that normally requires vast amounts of capital, and they're attracting massive investment and accumulating market share.

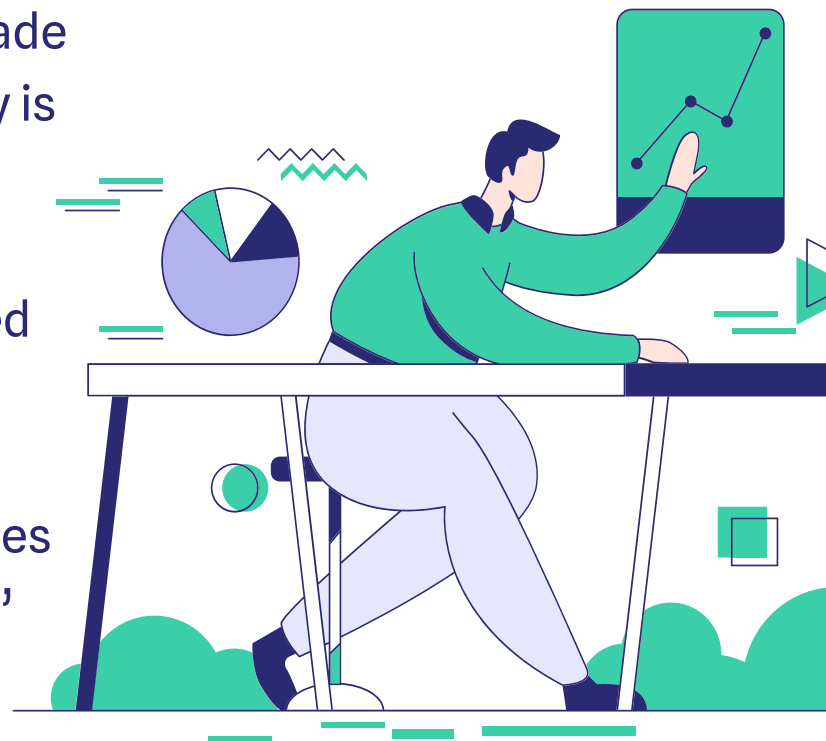
In 2021, total funds invested in insurtechs totaled \$15.8 billion, according to Gallagher Re's "Global InsurTech Report," which was more than the amount invested in 2019 and 2020 combined.

That shouldn't be possible in a market like insurance, given all the structural forces acting against companies, yet they're still managing to do it. Meanwhile, established insurers are struggling to deliver experience-economy outcomes – to accelerate underwriting, sales, and claims resolutions, engage with and sell to digital natives, increase retention – and escape the commoditization of insurance,

We see this in the proliferation of insurtechs that do point solutions and a few that offer full stack insurance, such as WeFox, the German digital P&C insurer that just achieved "unicorn" status and its 2 millionth customer.

“ The promise of a world made better and easier by technology is being trapped behind models, architectures and governing structures that have not realized their full potential nor created adequate value. To survive the tech-clash, insurance businesses need to re-think these models.”

— Accenture's Technology Vision for Insurance



Time for Ambitious Insurers to Fight Back

So how does the industry punch back? By adopting new business models and adapting to the future faster and more effectively than the competition and the rising expectations of customers and employees now surrounded by digital experiences.

Here's a look at what we think of as the five of the most ambitious insurance business models:

- **EMBEDDED:** \$3.5 trillion estimated market value
- **RISK MITIGATION:** Reducing and avoiding risk as a value-added service
- **ADAPTABLE:** The ability to adapt will define competitiveness
- **HUMAN CENTRIC:** Freeing human capital will create agile value-focused insurers
- **CARBON NEUTRAL:** The environment is everything

An All-Inclusive Platform for Ambitious Insurers

To escape the commoditization of insurance, insurers must create more positive, frequent, and valuable customer interactions. These, in turn, can lead to longer-lasting and profitable customer relationships. And that is exactly what embedded insurance is helping them to do.

Anyone who's made an online purchase accompanied by an offer for an extended warranty, or trip insurance offered with your flight and rental car, has experienced the immediate relevancy of this important distribution method.

These simple models and products offer insurers comparatively low-cost access to new customers and markets, as well as operational efficiency. Moreover, because insurers' technology and ability are colliding



with consumers' expectations for seamless digital customer experiences, we're approaching a proliferation of embedded insurance partnerships.

Embedded insurance 2.0 builds on that simple product and cross-sell model with something even more valuable: personalization via real-time data exchange.

As real-time data exchange matures – and with the application of advanced analytics and AI – IoT, demographic, geo, financial, and third-party data can be used for more detailed and highly accurate underwriting. “[E]ven the leading insurers can see loss ratios improve three to five points, new business premiums increase 10 to 15 percent, and retention in profitable segments jump 5 to 10 percent, thanks to digitized underwriting,” [according to McKinsey & Co.](#)

This data also can and should be used to understand individuals and to create personalized and contextually-relevant products, services, and customer experiences. Each of those interactions and purchases then contributes to an ever-more detailed portrait of the customer and opportunities to satisfy their individual needs.

From the customer's perspective, there's real value. Communication through mobile apps, text, portals, and dashboards can be used to mitigate risk, reward and influence behavior, lower insurance, vehicle maintenance, and operating costs, and reduce marketing noise. In addition, performance metrics, comparisons, rewards, and other gamification techniques create even more customer engagement.

Risk Mitigation

Given the vast amount of real-time data available from Internet-of-things (IoT) devices and consumer electronics, insurers have a burgeoning opportunity to identify risk, rate for it, and help people avoid it.

Take home insurance, for example. It doesn't matter where you are in the Western world, 50% of claims are from the escape of water. If you have a leak flow meter on a pipe, which costs less than lunch, a smart meter valve could switch it off immediately and send you an alert. Everyone would save huge amounts of frustration and money on that risk.

Insurers could do a corporate venture with a partner to offer that installation. Similar models could be built around smoke detectors, building an ecosystem of partnerships and value-added services.

On a larger scale, let's consider cyber insurance. We're at the point where the risk of catastrophic ransomware attacks is so high that most insurers are adopting one of two strategies. They're either

- Raising premiums to the point that they haven't got a feasible product, or
- Limiting coverage, which is causing problems and prompting litigation

But here's a third option: An ambitious insurer could enter a partnership to offer IT services and similarly protect, remove, and alert, etc. Roughly 70% of ransomware attacks go unnoticed because companies don't have sufficient technology and expertise to identify them. Hackers gather bits of data, learn patterns, and plan for larger attacks. Given greater access and transparency, insurers could also learn from such attacks and continuously improve products and services accordingly while lowering potential losses.

While the models vary in size and sophistication, prevention is a relatively simple concept paving the way for insurers to become ecosystem drivers. Further, we're already seeing insurers partner with other businesses – and other insurers, referred to as The Great Crossover – to extend protections, create and share customer data, reduce churn and premiums, and improve customer retention.

Adaptable

Given the rapid maturation of customer expectations and technology – cloud-native technologies, artificial intelligence (AI), machine learning (ML), robotic process automation (RPA), and others – a lot of opportunities are being thrown at insurers, many of which they struggle to act on due to the limitations of their modern legacy insurance core systems.

But a lot of change also will be driven by the macro environment and the market itself. So insurers' ability to “connect the dots,” and not just respond to – but anticipate opportunities – is going to be critical to their competitiveness and success. Those insurers that can act on that knowledge by developing and deploying new product and services bundles, for example, will rapidly outpace competitors and scoop up market share.

Benefits insurers, for example, will need to adapt to the changes in employment trends, such as the rise of “gig workers.” Whether they are changing employers, accepting gigs or contract opportunities, or leaving the workforce due to layoffs or retirement, most people would welcome the option to take their employer-provided insurance with them.

From the employer's perspective, this insurance portability would increase the value of the total compensation plan they can offer and could give employers a competitive advantage in tightening job markets.

For insurers that can adapt – that can transition group members to individual members – insurance portability offers a competitive edge for years to come by retaining those customers and expanding their share of wallet as they buy homes, and cars, marry, start businesses, save for college, and plan for their economic future.

Ambitious insurers also earn the opportunity to satisfy evolving customer demands in new ways, through cross- and up-selling opportunities and by helping close the growing gap in insurance ownership. But only if they are adaptable enough to take advantage of this opportunity.



Carbon Neutrality

Carbon neutrality is going to become a defining force in the insurance industry. Insurers are heavily impacted by climate change, and because they are also huge investors, they will drive carbon neutrality across industries. Carbon neutrality will become the standard, and not merely an opportunity for differentiation and competitive advantage.

This has long been discussed conceptually as a transformation driver in our industry. In 2012, the United Nations created the [PSI Initiative](#) “to better understand, prevent and reduce environmental, social and governance risks, and better manage opportunities to provide quality and reliable risk protection.”

For example, insurers are now working with new data providers to [predict flood risks](#) and prevent or reduce the risk to people. We also see insurers acting as [data service providers](#) to help farmers better understand their options and adapt to climate change.

There's more. Insurers are large investors, and many have expressed plans to remove investment in businesses without net-zero-emissions goals. Due to the size of their holdings, insurers have the ability to move markets

and influence the companies they hold stock in. Given that businesses with net-zero emissions goals listed in the S&P 500 have 50% higher valuations than those that do not, this likely will compel other corporations to adopt them as well.

This raises the issue of insurance companies' net-zero-emissions plans, which is where it becomes a bit more tricky. Recently we looked at the stated goals of 48 of the largest insurers in EMEA, and relatively few insurers have yet to express net-zero-emissions goals and commitments for themselves.

However, we think technology's impact on insurers' carbon neutrality will be significant. Globally, 6% of carbon emissions is driven by energy consumption, and for insurers a huge portion of that is driven by technology and transportation.

Ambitious insurers will seek to engage with partners that have achieved net-zero status and reduce or eliminate the costs and emissions related to inspections, adjusters, and sales. In addition, agents and brokers will increasingly leverage digital technologies and avoid driving to your home or business to talk about your insurance.

Cloud-native tech will become more prevalent for enterprise systems, as it's far more efficient than modern legacy. It scales to support remote access for large numbers of employees, takes updates more readily, helps the drive toward paperless insurance, and creates process efficiencies through digitalization, all of which contribute to reducing insurers' carbon footprint.

“Ambitious insurers are true ecosystem thinkers. They are challengers who embrace the values and principles that drive the success of companies like Amazon, Uber, and Revolut.

They create momentum by bringing people together and building agreement around their new vision for insurance. And then they deliver.”

— [Alec Miloslavsky](#) CEO @ EIS

Human Centric

One of the greatest challenges insurers face is the annualized nature of their customer relationships and the ease with which people switch carriers. When the sole determinant of a relationship's future is price, it's easy to lure people away with a less expensive offer.

To escape this commoditization of insurance, insurers must create more positive, frequent, and valuable customer interactions. The only way to create longer-lasting and profitable customer relationships is to know your customers and act like it.

Advanced analytics, AI, IoT, customer, and other data can be used for a variety of purposes beyond risk assessment and pricing. Ambitious insurers are also adding demographic, geo, financial, and third-party data to understand individuals, their relationships, and histories, and to create deeply personalized and contextually-relevant products, services, and customer experiences.

Further, they're creating digital ecosystems with various partners to retain, reward, and grow those individual customer relationships. Each of those interactions and purchases within the ecosystem then contributes to an ever-more detailed portrait of the customer and opportunities to satisfy their individual needs. The pushback is that insurance is a grudge purchase, and that people aren't interested. But that's changing as ambitious insurers increase insurance's relevance.

Separately and especially in combination, these techniques and technologies are changing the insurance experience. But, again, from the customer's perspective, there's real value. Timely and relevant communication through the customer's channel of choice reduces marketing noise. And by treating customers as individuals, establishing trust, and demonstrating relevance, insurers are earning customer engagement and retention.



Cloud-Native Coretech Supports Ambition

When you truly have to change, when you have to deliver new insurance products, access new markets, work with new partners, consolidate systems, and create value in an increasingly commoditized market, you can't continue with business as usual. And you certainly can't do it on modern legacy insurance systems. Insurance systems created even just two years ago were designed – from the data structure up – to continue operating the way insurers do today: around the policy.

For ambitious insurers looking to adopt new business models, the openness of cloud-native coretech is essential. These API-first insurance platforms liberate insurers from legacy constraints around applications, integrations, and perhaps most important: data.

Cloud-native architectures support data fluidity, removing barriers to accessing, moving, contextualizing, and augmenting data with third-party data sets. This customer-centric data structure liberates insurers to change, adapt, and achieve the rate and cost of change necessary to compete into the future.

The opportunity for massive change has finally come to insurance. With the advent of cloud-native insurance core systems, insurance technology is finally able to deliver on the always available, AI-enhanced digital future we take for granted in other areas of our lives. The open question is how will insurers seize the opportunity?

“ For most people ambition simply means striving to make things better for themselves and the people around them. For others, it means **improving the environment in which we all live.**”

— **Rory Yates**

Head of strategy for EMEA & APA @ EIS

About EIS

EIS is the first choice for ambitious insurers focused on future proofing their businesses and building the customer-centric insurance platforms of tomorrow.

Founded in 2008, EIS provides a digital insurance platform that has been specifically engineered to remove every obstacle and give you the freedom to pursue and achieve your most important strategic goals. Its open, flexible, cloud-native coretech platform liberates insurers to grow market share and enter new markets, develop new products and build engaging experiences, while lowering acquisition costs, boosting retention and delivering greater revenue and profits for the long-term.

Headquartered in San Francisco, EIS powers premium growth for insurers in all lines of business worldwide. For more information, visit EISGroup.com or follow @EISGroupLtd on Twitter and LinkedIn.

“After decades of building their businesses on policies, insurers need to put customers at the center of everything they do and focus on future proofing their businesses. At EIS, our objective is simple: to offer control without compromise and help ambitious insurers innovate without barriers.”

— Anthony Grosso

Head of Marketing &
Communications @ EIS



Sound interesting? We should chat.

Learn more about how cloud-native coretech is helping ambitious insurers realize their goals.

[Book your call](#)