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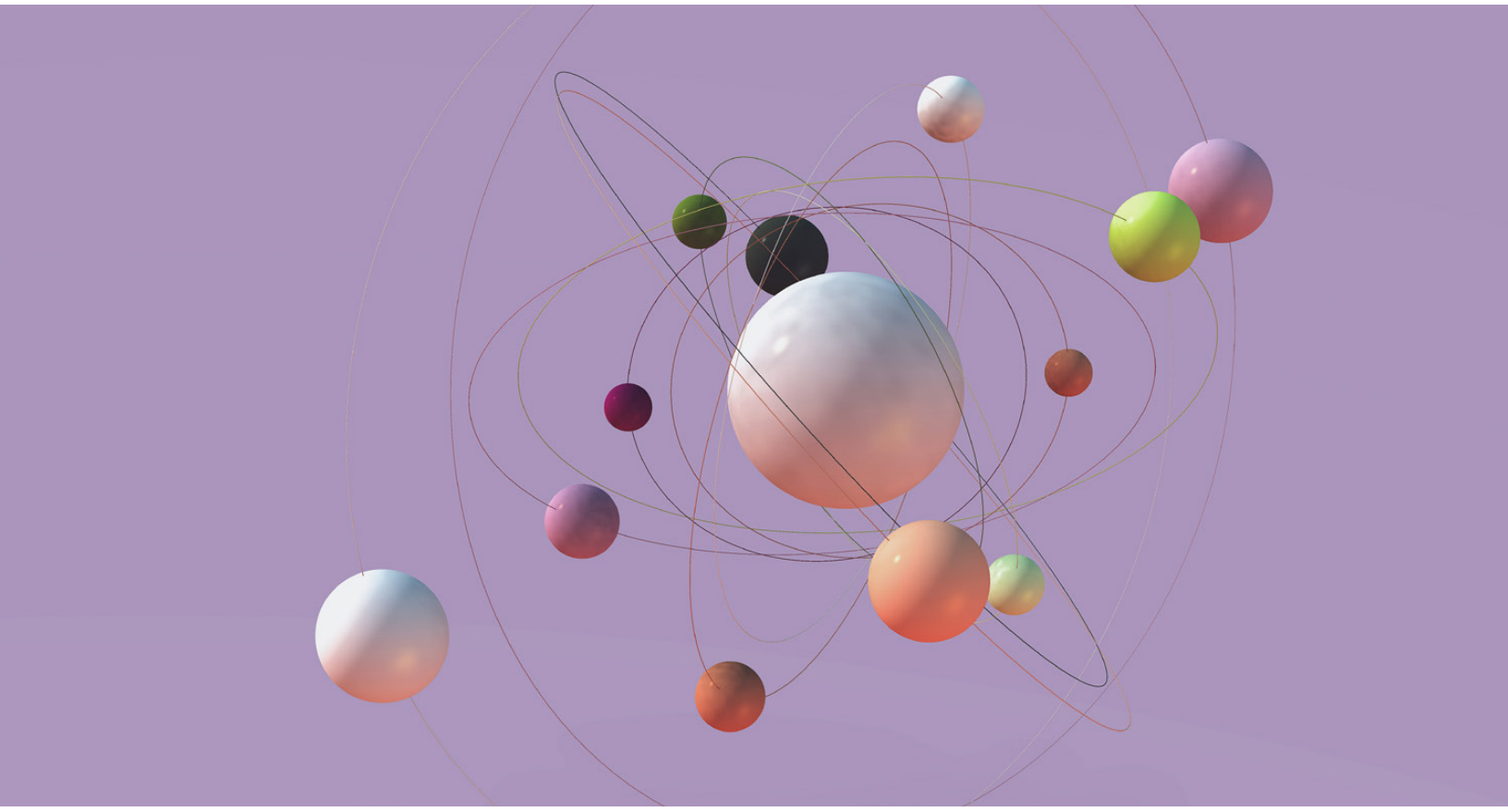
Ecosystems and platforms: How insurers can turn vision into reality

Today, insurers win by offering a product. Tomorrow, insurers will win by providing access to prevention and assistance services—and by offering the right product to the right customer at the right time.

by Tanguy Catlin, Ulrike Deetjen, Johannes-Tobias Lorenz, Jahnavi Nandan, and Shirish Sharma



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It is no longer news that digital technologies are reshaping customer expectations and redefining industry boundaries. Apple now offers a credit card; Uber Technologies is in the midst of entering the logistics sector; Ping An of China has expanded beyond insurance and into everything from healthcare to housing; and Amazon has moved beyond retail and bookstores to such an extent that no sector feels safe from "getting Amazoned."[1]

As traditional industry borders fall away, ecosystems—and the digital platforms that often enable them—will greatly influence the future of insurers (see sidebar, "What is an ecosystem?"). Our research has found that ecosystems will generate $60 trillion in revenue by 2025—which will constitute 30 percent of global sales in that year.[2] Consequently, many insurance executives are looking beyond industry borders to understand the growing opportunities and threats that come from new partners and competitors in the ecosystems relevant to them, from mobility to healthcare and beyond.

In 2018, we described how the rise of ecosystems and digital platforms offers insurers an opportunity to take on new roles and realize new sources of revenue.[3] Since then, ecosystems have gone from hype to reality: insurers are increasingly aware of using ecosystem opportunities to expand their core business of risk aggregation to prevention, mitigation, and related services. However, many insurers still struggle to build the technological and organizational foundations as well as the necessary partnerships to generate value from their ecosystem approaches. In this article, we focus on the pathway from vision to reality across three stages: strategy, enablement, and value generation.

Insurers in the context of ecosystems

Insurers have invested in and partnered with players outside the industry for years. An analysis of insurers' investments over the past two decades shows that approximately one-third of start-up financing by insurers went into the health industry, followed by finance, mobility, and housing, as well as the commercial (B2B) ecosystem (Exhibit 1). Of course, it is worth noting that these investments do not necessarily represent full ecosystem integration, but they do demonstrate insurers' financial interests in these industries that could possibly represent a starting point for deeper relationships.

[1] Sean Silverthorne, "Amazoned: Is any industry safe?," February 19, 2018, hbswk.hbs.edu.
[2] Venkat Atluri, Miklós Dietz, and Nicolaus Henke, "Competing in a world of sectors without borders," *McKinsey Quarterly*, July 2017, McKinsey.com.
[3] Tanguy Catlin, Johannes-Tobias Lorenz, Jahnavi Nandan, Shirish Sharma, and Andreas Waschto, "Insurance beyond digital: The rise of ecosystems and platforms," January 2018, McKinsey.com.

What is an ecosystem?

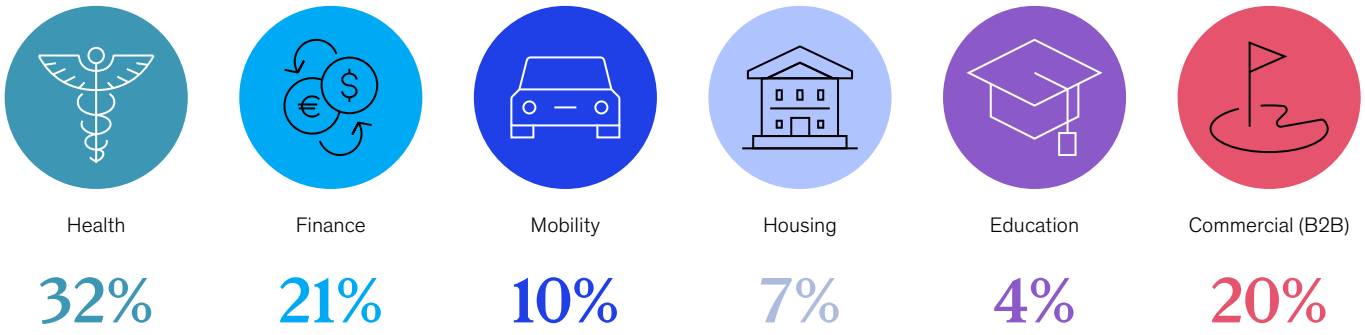
An ecosystem is "an interconnected set of services [or products] that allows users to fulfill a variety of needs in one seamless experience."[1] Ecosystems are built around consumer needs; they go beyond simple partnerships across industry boundaries to bring together digitally accessible services or products, providing consumers with an end-to-end experience. Ping An of China is a well-known example of an ecosystem orchestrator in the insurance industry. The company goes beyond selling insurance products, offering its customers an ecosystem of services such as Ping An Good Doctor, PingAnfang, and Autohome to address their health, housing, and mobility needs more comprehensively. By stocking the ecosystem with its own subsidiaries, this approach generates a substantial number of new customers and increases existing-customer loyalty. To ensure scalability, an ecosystem is often orchestrated by combining the service offerings of a range of independent companies. While Ping An may be a unique case in Asia, European and American insurers can increasingly focus on building their position across different ecosystems and integrating with players from various industries.

[1] For more on ecosystems, see Tanguy Catlin, Johannes-Tobias Lorenz, Jahnavi Nandan, Shirish Sharma, and Andreas Waschto, "Insurance beyond digital: The rise of ecosystems and platforms," January 2018, McKinsey.com.

Exhibit 1

Six ecosystems make up a significant portion of global investments by P&C, life, and health insurers.

Ecosystems' contribution to number of investments,[1] 1995–2019, %



[1] Data reflect traditional investments, excluding insurtechs and partnerships.
Source: Crunchbase; PitchBook Data

Indeed, most insurers are aware of the ecosystem opportunity and have begun integrating offerings beyond their core insurance products. According to a July 2018 survey by technology firm DXC Technology, 22 percent of European insurers said they were already part of an ecosystem that could provide additional services to customers; another 46 percent said that becoming part of an ecosystem would be a high priority within the next two years.[4]

These trends toward ecosystems are found across companies in Asia, Europe, and North America; Exhibit 2 shows the start-up investments of the 20 largest property and casualty (P&C), life, and health insurers worldwide by net premiums written in 2018. Eighteen of the 20 insurers invest in start-ups spanning multiple ecosystems; just two focus exclusively on health, due to their current portfolio of insurance products. Very few start-ups have received investments from more than one insurer.

These investments may partially reflect insurers' recognition that ecosystems can have a significant impact on their core business, including a reduction in claims and potential new revenue streams (Exhibit 3). For example, Ping An's online car-purchasing platform, Autohome, draws more than 29 million unique visitors each day, generating one-third of customer leads for the insurer's P&C and financial services businesses.[5] Customers can also benefit from ecosystems in myriad ways, from lower premiums to more convenience and even better health. For instance, the users of Vitality, South African insurer Discovery's health-and-wellness-management program, have 28 percent shorter hospital stays and 10 percent fewer chronic conditions compared with those who don't use the program, likely due to a combination of selection effects and actual behavior change.[6]

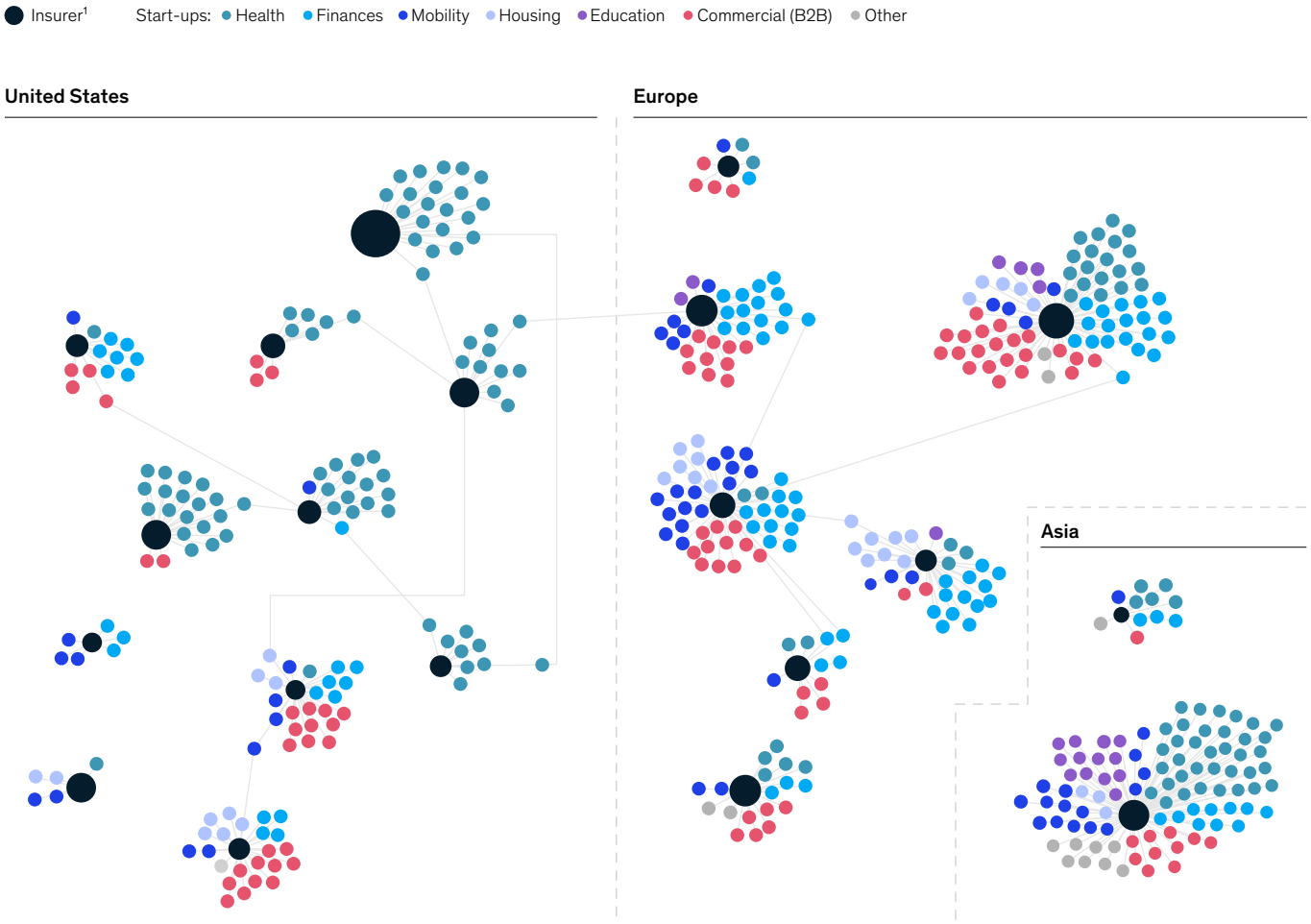
As insurers break into other industries, other industries are also breaking into insurance. For example, Tesla launched the InsureMyTesla program in 2017, aiming to simplify insurance for its customers; policies are underwritten by providers including Liberty Mutual Group and AXA.

The urgency to act is clear—but where to begin?

[4] *Advancing digital insurance: A survey on the digital maturity of the European insurance industry*, DXC Technology, July 2018, dxc.technology.
[5] "Form 20-F," United States Securities and Exchange Commission, April 12, 2019, ir.autohome.com.cn.
[6] *Integrated annual report*, Discovery, 2018, discovery.co.za.

Exhibit 2

Property and casualty, life, and health insurers invest in start-ups across industries.



[1] Size scaled to gross written premiums, 2018. Data reflect traditional investments, excluding insurtechs and partnerships.
Source: Crunchbase; PitchBook Data

Pathway to implementation

In a given ecosystem, there are two primary ways for an insurer to get involved: orchestration and participation. Orchestration means assembling various services into seamless customer journeys. Some companies, such as Ping An, arrange their ecosystems using their own subsidiaries and are hence sometimes referred to as "builders." Others create partnerships to integrate non-insurance services into the insurer's realm to ensure scalability.

Other insurers simply participate in existing ecosystems orchestrated by other players, often to gain access to new sources of lead generation. While participation tends to generate less value and forfeit the customer interface, it is easier to achieve for a single use case and can still bring benefits. By contrast, orchestration generally requires a significant outlay of capital and resources and will not be a strategic option for all insurers, particularly smaller ones. Each role has its advantages, and in practice, these roles are not clear-cut: a single insurer can play both roles at the same time across different ecosystems.

Exhibit 3

Touchpoints, data, and products and services have an impact on the value chain.

	Existing core business					New revenue pools
	Product development	Sales and distribution	Pricing or underwriting	Operations	Claims	Noncore activities
Touchpoints	Enable micro-insurance approaches	Cross-sell or up-sell in moment of need	Enable behavioral pricing	Increase customer loyalty	Enable intelligent steering	
Data	Inform future product needs	Personalize offering	Evaluate risk to price more granularly	Recognize churn potential	Improve prevention and detect fraud	Open up new sources of noncore revenues
Products or services	Make new products viable (eg, cyber)	Strengthen product value proposition	Create bundle (eg, services + insurance)	Reduce service costs and increase satisfaction	Reduce claims frequency and severity	

However, while most insurers understand that ecosystems are being formed across sectors, it is difficult to determine the right strategic moves and set up the necessary operational requirements to actually take the plunge. Through conversations with insurance executives around the world, we have identified three stages in the approach to participating in or forming an ecosystem: strategy, enablement, and value generation (Exhibit 4). These stages can help insurers implement ecosystems in manageable, focused phases.

Ecosystem strategy

Forming an ecosystem strategy begins with articulating why the insurer should pursue the ecosystem model to being with. As such, joining or forming an ecosystem starts with a clear vision that ties the move with audacious goals for the core business. This may be a focus on lead generation or claims reduction (for example, through prevention or case management). A sharp vision is particularly important because there may be other possibilities outside the ecosystem that have more impact on the core business and are easier to carry out—for example, lead generation through cross-selling from the insurer's own in-force business rather than generating leads through ecosystem services. This vision must be championed by the CEO and board and backed by a clear funding commitment.

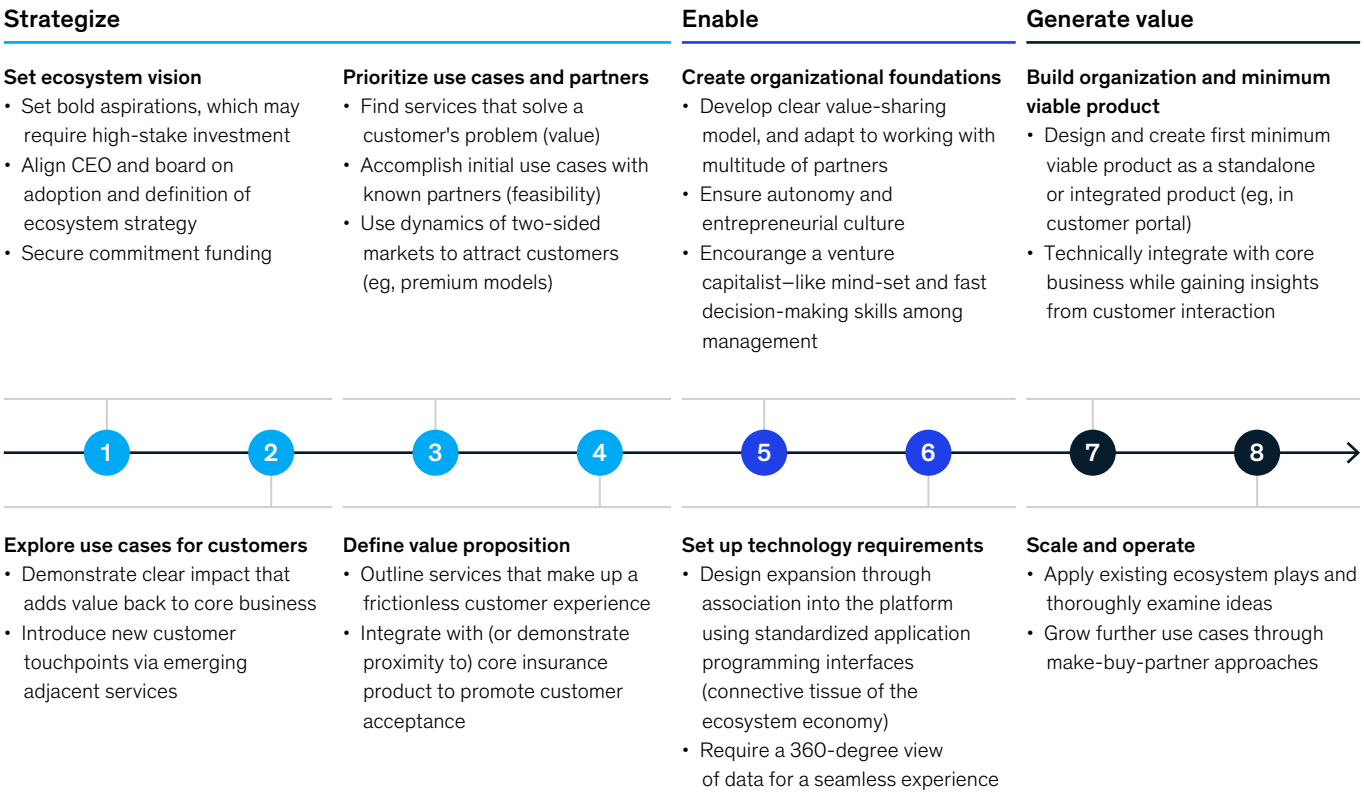
Central to this vision is determining the appropriate ecosystems to enter—and this choice depends primarily on an insurer's size and current positioning. A health insurer might start with the health ecosystem, whereas a car insurer could focus first on providing mobility services. Insurers should explore and prioritize specific use cases, laying out what value can be delivered to customers and to the organization. Rather than mapping out every single use case to be realized over the coming years, this mainly helps make the vision more concrete and ensure that the most impactful and easiest-to-realize use cases that form a hook to engage customers are selected.[7] At this stage, design-thinking methods can help to better understand the customer and determine which use cases would be worth offering. Design thinking is a natural component of ecosystems given their very existence can be traced to an obsession with customer centricity.

Insurers can be active in more than one ecosystem, especially given that organizational requirements

[7] For more, see Geoffrey G. Parker, Marshall W. Van Alstyne, and Sanget Paul Coudary, *Platform Revolution: How Networked Markets Are Transforming the Economy—and How to Make Them Work for You* (New York: W. W. Norton & Company, 2016).

Exhibit 4

A thoughtful, iterative approach can help insurers implement ecosystems.



and technology infrastructure are scalable across ecosystems and do not necessarily create boundaries. At the center of these considerations should be brand perception (for example, a health insurer might be perceived as a go-to partner for health services) and possibilities for linking to the insurer's core value chain to generate benefits. Once established, these ecosystems may also become mutually beneficial. Smart-home applications, for instance, can support health applications in the context of ambient assisted living (AAL). As one example, Noé—Groupama's offering in AAL—employs tablets, wearable devices, and a user-friendly app to help the elderly in case of an incident at home.

The outcome of this process should be a defined value proposition—an opportunity for the insurer to improve customer experience that translates directly into value for the organization. Services that add value to the customer experience start a virtuous cycle, as the resulting customer contact points serve as opportunities for cross-selling and identifying other needs, thereby generating more data that can be used to attract further service providers. TurnKey, Amazon's partnership with Realogy and their latest venture in the housing ecosystem, aims to overhaul the home-buying experience while instituting lasting customer touchpoints. Amazon offers buyers who work with Realogy move-in benefits, such as cleaning and furniture assembly, as well as discounts on Amazon smart-home products, such as the Echo Dot.

Ecosystem enablement

Once the target vision is clear, insurers can enable ecosystems by creating organizational foundations and the technological basis.

To form or join ecosystems and reap the advantages of working with many partners, the strategy-development business units must be granted

more autonomy along with a more entrepreneurial culture. Organizations often face challenges in scaling their partnerships, particularly when adding use cases to the ecosystem, as their organizations' traditional modes of cooperation can be too rigid. To avoid this complication, Allianz and AXA have set up investment units in Allianz X and AXA Venture Partners to pursue entrepreneurial opportunities.

When it comes to organizational structure, the executives we spoke with often cited the complexity of balanced value-sharing models between everyone involved, such as customers, insurers, incumbents, and start-ups from other industries and players. A successful ecosystem requires a win–win situation. Prudential Malaysia's AI-powered app, Pulse—which aims to make healthcare more personalized and accessible—showcases how insurers can combine different services from start-ups into one seamless experience, with benefits for all parties involved. In addition to being an all-in-one application for personal-health management, Pulse also uses data from the Malaysian Ministry of Health to predict a locality's risk of a dengue outbreak in the next 30 days—with 80 percent accuracy.

In the quest to design user-centric services, develop and integrate those services, and generate insights from the resulting data, executives also identified obstacles in attracting and retaining digital talent for their ecosystem initiatives. To address these challenges, insurers should make significant investments in digital-talent management—hiring, retaining, and upskilling team members in digital functions, including UX design, development, data science, and engineering. Investing and nurturing digital capabilities is key—even if the services themselves may be created by partners, the ability to link seamlessly into the insurer's offerings requires digital talent.

A smart approach to technology deployment is also key to ecosystem enablement, particularly because of technology's central role in building and maintaining ecosystems. However, most insurers' services reflect their siloed organizational structure, with disparate apps for different services and low integration or a highly nonstandardized integration of each partner. In a digital world, IT's role has changed to be a core differentiator, especially as products require constant updating and easy integration with various partners. There is a clear need to assemble cross-functional teams in agile organizations and to react quickly to developments in the market and customer preferences. It is also necessary to ensure easy and convenient integration with other partners, creating a seamless user experience and generating value at the same time, for example, through converting the generated leads into insurance policies sold.

Ecosystem value generation

Technological excellence is at the heart of capturing value. This means developing or cooperating with a modular platform that allows for adaptability through application programming interface (API) coupling with partners; coupling should include a minimum data set to be exchanged and basic services regarding authentication and authorization.

For example, Lemonade Insurance Company, an online insurer, initially offers developers access to its renters, condo, and homeowners insurance through its API platform and expands the use cases supported by the API as the company introduces new insurance products. In designing such a platform, an insurer's services in the ecosystem should route customers to each other: one offering guides the customer over to the next, generating many opportunities to make contact and create value—and, from there, develop new products to meet customer needs.

Of course, it is important to get started with the first minimum viable product for a prioritized use case and learn from customer behavior to develop further services. Striking a balance between accumulating various ecosystem use cases and perfecting integration is crucial. Neither of the extremes will enable successful scaling of an ecosystem approach—they compromise value generation by either taking too long when speed and scalability matter or by lacking the integration necessary to use the touchpoints and data generated.

As they scale, ecosystems can also allow insurers to analyze customer data and understand their behaviors in more depth than previously possible. For example, by combining activity data from the

ecosystem with outcomes data reflected in claims, insurers can assess the effectiveness of health interventions, smart-home devices for homeowners insurance, or safe-driving apps to reduce damages. These insights can be incorporated into value-sharing models with partners.

Ecosystems can also create extra value if they are marketed to especially desirable customer segments. Once such customers enter the ecosystem, individual products and services can keep the customers' transactions inside the ecosystem by referring customers to other solutions within the ecosystem. For example, Discovery's program provides incentives for healthy behaviors, which attracted a substantial number of healthy customers.

As the ecosystem matures, insurers should work toward tighter operational integration of their core services. Insurers can look to expand into other use cases through make-buy-partner approaches based on customer feedback and analytics generated using different data sources and systems. Of course, state-of-the-art data and analytics capabilities are foundational to insurers' ability to use the data generated, touchpoints created, and services provided to create value. Such capabilities are among the aspects that insurers struggle with most when trying to realize benefits for their business at scale.

The emerging economic impact of ecosystems shows they should be regarded as something more than a fancy innovation. In the end, ecosystems are another way of monetizing the classic components of the insurance value chain: product development, lead generation, pricing and underwriting, service provision, and claims management.

Due to their technology and organizational requirements, ecosystem and platform business models are not easy to build up and scale. However, if successful, they enable new sources of growth, help attract and retain customers, and make products more viable through prevention and assistance. Once fully rolled out, they benefit from strong economies of scale and growth through resources that insurers do not necessarily need to possess themselves.

Refraining from participating in ecosystems will not be an immediate problem for insurers, particularly as they continue to play an important role in the ecosystem thanks to their ability to take risks onto their balance sheets. However, timing is critical, as different players from across industries are in the midst of forming key relationships across sectoral borders. Indeed, ecosystems are showing real traction and will become a differentiating factor throughout the coming decade to cover the customer interface. As Bill Gates appropriately pointed out, "We always overestimate the change that will occur in the next two years but underestimate the change that will occur in the next ten. Don't let yourself be lulled by inaction."[8]

[8] Bill Gates, *The Road Ahead*, first edition, New York, NY: Viking Press, 1995.

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