

How insurers can **benefit** from the **platform economy**



Introduction

Digital transformation is a difficult process, and it doesn't happen overnight. You need to re-think your organisation and your entire client offering because this transformation requires a corporate cultural shift on all levels and departments. It is a difficult process in a traditional risk-averse industry such as the insurance industry is. A cultural change is the most difficult change a company needs to make ...

In several other industries, digital transformation has already left a mark. Thanks to the widely adopted use of smartphones, the transport and accommodation sector has been subject to major changes following the rise of Uber and Airbnb. In terms of value creation, you need to know that the top 7 out of 10 of the biggest companies in market capitalisation are based on the platform business model. This is also known as 'the rise of the platform economy'. Customers' expectations have shifted in the same direction: real-time convenience, anytime, anywhere!

A platform serves to (re)connect with your customer and to remain connected. As this platform economy is bound to scale further, platformisation is the way forward. It will speed up your innovation and enhance your customer loyalty. And it can boost revenue and reinforce your existing distribution channels with additional content and services. A platform is fuelled by circular data, both transactional and behavioural, to create additional value. The main challenge remains technology, as legacy core systems are known to not easily and flexibly connect to other systems, as they are often set-up in separate silos. A platform gives the possibility to build this connected IT in addition to, or a separate layer on top of, the core IT systems

August 2020





I have written this guide for the insurance industry based on my personal experience and insights of past digitalisation projects. I've also included the comments and supplements of my The Glue colleagues. I'm very grateful for their valuable contributions, because thanks to them this guide could reach its final completion. You will not discover a new ground-breaking methodology or a 'off the shelf' digitalisation miracle, but insights on the drivers towards the platform economy, the value creation of the platform model and finally an overview of all the steps and concerns to think about, including some useful tips and tricks.

For those I've already had the opportunity to work with, they know that I'm convinced that customer centricity must always be the main driver and goal of your innovation projects. By putting your client at the heart of your company, you can speed up the free float of data. This gives you insights on your clients' expectations and constructs the basis for real tailor-made products and services. And the technical way to achieve this is, is by the creation of a platform.

How to establish your business on these platforms is a complex step-by-step journey, but Rome wasn't built in a day either. And now you have this guide at hand to accompany you on this exciting journey!

I hope you enjoy the reading and I'm always happy to discuss your platform ideas. Feedback is highly appreciated!

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1. Drivers toward the platform economy in the insurance industry

“There is no alternative to digital transformation. Visionary companies will carve out new strategic options for themselves – those that don’t adapt, will fail.” Jeff Bezos

Digital transformation means more than ‘digitising’ a sales channel or automating a business process. You need to reinvent your operating models, processes, propositions and customer relationships. That is a major hurdle to take for an industry that is traditionally ‘risk-averse’. You need a substantial cultural shift in your organisation and to find a way to introduce innovation and changes safely.

Bar is already high

Today’s customers are used to excellent customer journeys and experiences with platforms such as Zalando or Bol.com. In just a few swipes, you can order a new pair of sneakers and a flat screen, pay with face ID and they are delivered to your doorstep the next day.

This customer journey contains a ‘thank you for your order’ email, an expected delivery date email, a text message with the timeframe of the delivery, an ‘enjoy your new purchase’ email and finally a ‘rate your product’ email containing a single-click interface to feed the platform with your feedback. Your review nurtures the trust between seller and buyer. Or, you didn’t empty your shopping basket, and you’ll be haunted by emails and online ads for your favourite websites.

This whole process is fully automated and based on data. It gives the customer full transparency on the order process, and the customer feels appreciated for buying a product. Sometimes you’ll find a discount voucher for the next purchase or a little gift in the parcel to make your journey completely satisfying.

And that's what it's all about: today's customers expect an excellent experience in their day-to-day digital life. The digital lifestyle provides connection, real-time information and personalisation on interconnected multiple devices. As an insurer, you also need to be on these channels and ready to interact! Now there's no turning back and you need to live up to these expectations.

So how can you stay connected with your customers or re-connect or ... even connect with new customers?

New generations

The sharing economy is no longer a newbie. The size and scale of Uber or Airbnb now surpass those of the world's largest business in transport or hospitality. They all rely on user-based rating systems for quality control and ensure trust between consumers and service providers who have not previously met. The implications of the sharing economy will have a deep impact on the insurance industry. Even in Belgium, owning a car isn't top of mind anymore with Millennials or Generation Z. Will they be still buying a car insurance? And how will this affect your business as car insurance is still one of the top insurance products today?

New business opportunities

This sharing economy needs a different approach in terms of products and services. Who is insuring these shared cars on platforms such as Poppy or Zip Car? Who is insuring the flats on Airbnb? Do you know how many of your customers with a home insurance are renting out their flat on Airbnb which

<https://www.forbes.com/sites/forbeslacouncil/2019/03/04/the-sharing-economy-is-still-growing-and-businesses-should-take-note/#1d5b96004c33>



Why choose VitalityHealth?

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might be a popular place with party people? Maybe that customer would be interested in additional coverage? In Asia, customers can now activate their travel insurance when they are in the airport and stop it when they get back. These micro-insurances are big revenue drivers for Asian insurance companies. Will they do the same in Europe? And what about the Belgian brokers distribution channel? How can they be involved in this digital transformation and leverage their valued customer engagement and loyalty? One of the biggest InsurTech successes in Belgium has already tapped into this new gig economy. Qover offers Deliveroo's delivery partners a flexible insurance solution.

New technologies, new data streams

Data is expected to power connectivity with customers, generate insights into customer behaviour, driving risk pricing and customer engagement. Insurers who don't have control of this data, are likely to get left behind. The Internet of Things (IoT) or connected devices will provide many new data streams. How will you handle this feed? Is your IT system ready for this? How can you process this data to your benefit? This data will give you new insights on your customer behaviour and could influence your risk assessment and pricing accordingly. And don't forget the prevention possibilities you could offer your customer. Today, these IoT devices are not readily adopted, but in the future, they will become the game changers for home insurance and probably also for life insurance as fitness and health trackers are on their way up thanks to the successes of wearables such as Apple Watch and Fitbit. Take the example of UK insurer Vitality Health. The Vitality Reward Programme encourages customers to use the activity tracker or mindfulness app to earn points. The more points you earn, the sooner you go from Bronze to Platinum status.

2. Generating new value propositions

Companies around the world are embracing technology and see the growth opportunities in how they are doing business. A McKinsey study expects that 30% of all global revenues will be generated by ecosystems and platforms by 2025. They stand for innovative products, digital processes or even entirely new business models. Innovation must become a core capability to seize the opportunities and overcome the threats of today's digital disruption.

Simpler, Safer, Smarter. Samsung Pay



SAMSUNG PAY



Vast Coverage



Money Transfer



Transit Card



Membership



Gift Card



Samsung Pay Cash

Big Techs

The financial industry fears that the Big Techs such as Google, Amazon, Apple or Facebook are bound to take a large piece of the market with their financial products and services. These companies are known for their excellent customer experience because their offerings are fuelled by the usage of their customer behavioural data. They are fully updated about our online behaviour, because they master the use of tracking cookies as no other. In other words, if they can close the loop with financial and transactional information, they can process the full 360 client view in their data centres and offer that perfect tailor-made 'best offer'. No wonder that Apple launched Apple Pay and that Samsung is now following. And they don't need to enter the market with money burning marketing campaigns, because they are already connected to a massive customer base as they are our favourite apps and browser tabs we use daily.



However, the offering of financial services is highly regulated, and compliance makes the customer journey very complex. They get around this by offering their 'marketplace' and teaming up with traditional players, such as Visa or Mastercard, to provide the financial service.

Business know-how

The process towards a platform strategy starts with a clear understanding of your existing business model and how you can transform or expand this into a platform model. Is there an existing platform to connect with? What additional services can I add to attract new customers or to enhance my customer loyalty? Can I create a new ecosystem around my existing offering? A lot of questions, but one thing is sure, by embracing the connecting and transactional power of platforms, you will discover new business models and revenue streams. However, probably not all parts of your business will flourish on a platform. A thorough understanding of your current offering and customers is therefore crucial. What is your strength and what is your most vulnerable business that may be impacted by your competitor's platform strategy. Also keep in mind that your new business model needs to be future-proof for your customers' need for personalisation and convenience. Customer retention and satisfaction will probably be a mayor KPI with more importance than in your current business model.

But what makes a platform so powerful?

3. Platform model

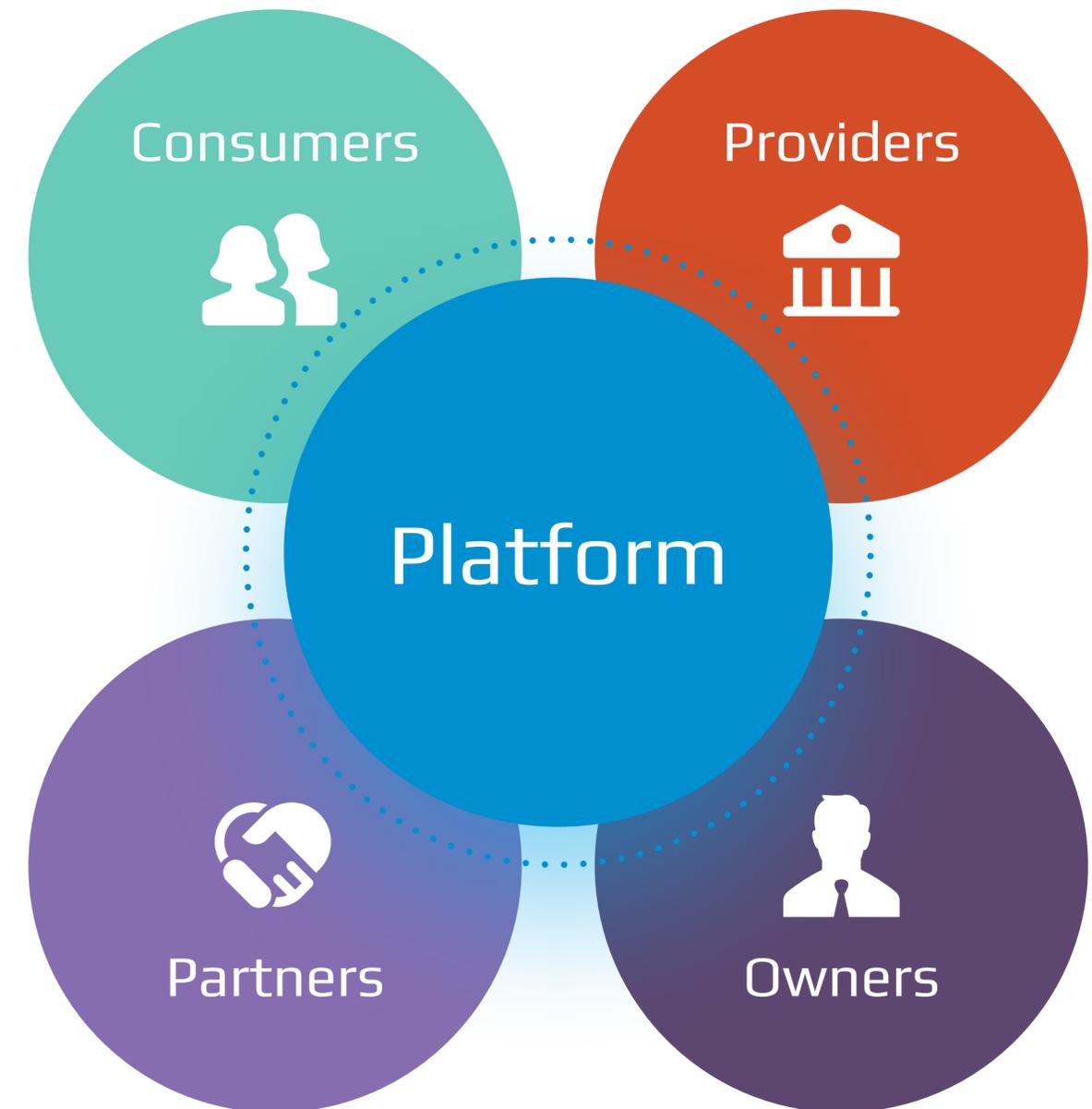
In the past, insurance companies were used to owning the entire value chain, from the mainframe and software, product design and offerings, to the procedures and distribution channels. Nowadays, technology enables integration and connection with interfaces such as APIs (Application Programming Interface).

This technology allows more parties to be involved in the traditional value chain more easily. And that's what makes a platform so powerful, because it facilitates *connections* and *exchanges* between different parties for products, services and information in the *value chain*. Moreover, this could be a completely new value chain, where now insurance can be part of it.

A platform *connects* all stakeholders in the insurance *value* chain with an excellent customer engagement and experience, and it is fuelled by *data*.

Connect

Often, a platform is mistaken for a mobile app or a website, but a platform isn't a piece of software. A platform facilitates a large and scalable network of users who can access this platform on demand. It creates communities and marketplaces that allow users to interact and transact. And by facilitating these exchanges, all parties can benefit from the advantages such as more operational efficiency or less transaction costs or access to innovative products.



“Successful companies transform from a participant in the market toward an orchestrator of the market” Marshall Van Alstyne & Geoffrey Parker (MIT)

Thanks to the connected technology, a platform enables you to scale in ways that a traditional business cannot.

An insurance company can play two roles in a platform model, i.e. the *participant* or the *orchestrator*. A participant offers insurance as a service by integrating with an existing platform. For example, you integrate your fire insurance policy on Immoweb. This website is the leading property platform in Belgium. It already has a high number of established users to connect to.

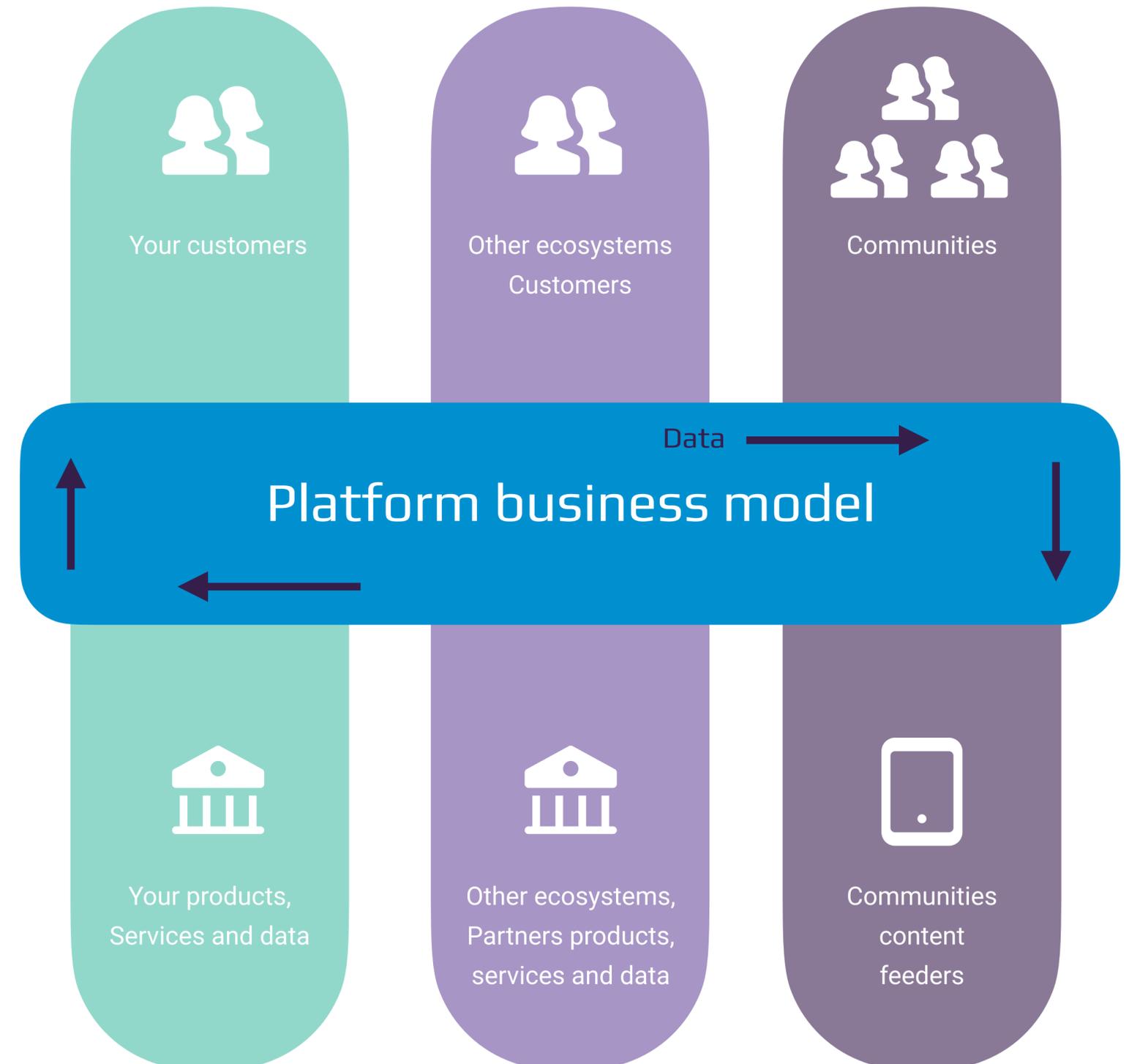
An orchestrator brings together services from different participants on one platform, allowing you to serve your customers end-to-end. This creation leads to a more personalised and customised policy and service offering thanks to better customer insights and risk assessments, and finally to a higher customer experience and retention. Needless to say that the role of orchestrator requires more digital competences such as analytical data power and excellent customer

journeys, but the benefits are obvious for an insurance company. For example, in 2012, Dutch insurer Achmea bought the majority stake of Independer, the biggest insurance comparison site in the Netherlands. Achmea claims that the platform taught them a lot about client centricity and has speeded up the innovation power internally. Since 2018, DPG Media has the full ownership of the comparison platform and it seems they have expansion plans for Belgium.

Value creation

A platform facilitates an easy distribution of financial services rather than vertically integrated and product-focused business models and creates additional *value*. It's all about understanding the network effect and how it will create value for all participants. In a traditional, more vertical oriented business model, revenue was the result of investing in and growing a business' internal resources. That is why most legacy systems are built vertically, in silos, product-oriented and not customer-oriented. But in a platform model, the revenue comes from cultivating an external network or tapping into a community, in addition to your own business.

A platform business model is not new. It already existed in ancient history and was called 'Forum' in Latin, meaning 'public place outdoors'. Today, you can compare this to the brick-and-mortar shopping mall, a location that facilitates exchanges. But thanks to connected technology, platforms can now facilitate the exchange of value by decentralising the network. The result is that today's platform businesses are facilitating exchanges at an unprecedented scale. In fact, if we take a closer look at developing countries, we see that platforms in insurance were able to grow very rapidly when access to the internet became widespread thanks to mobile devices and because these countries didn't have the existing commercial infrastructures like us. This explains the success that digital insurance provider WeSure has in China. After two years in business, WeSure has insured 25 million users.



And thanks to the community and user behavioural data, provided by Tencent's WeChat, they were able to provide the vital insurance information needed for anti-fraud, risk assessment and tailor-made marketing.

" We are committed to harnessing technology as part of our customer-first approach to make insurance affordable, accessible and relatable in a market where penetration is low, and healthcare is difficult to access," said Alan Lau, CEO of WeSure. "WeSure has the opportunity to protect over 1 billion people and provide help when they need it most. We will continue working towards our vision to offer greater protection for hundreds of millions across China."

This as an example of how fast a platform business model can grow and scale. A linear business model doesn't have the same potential. And let's not forget that the top 7 out of 10 of the largest global companies are based on a platform model as shown in the table below. (figures 2020 August 25th – Yahoo! Finance)

Largest Global Companies Market Cap in 2020 VS 2008

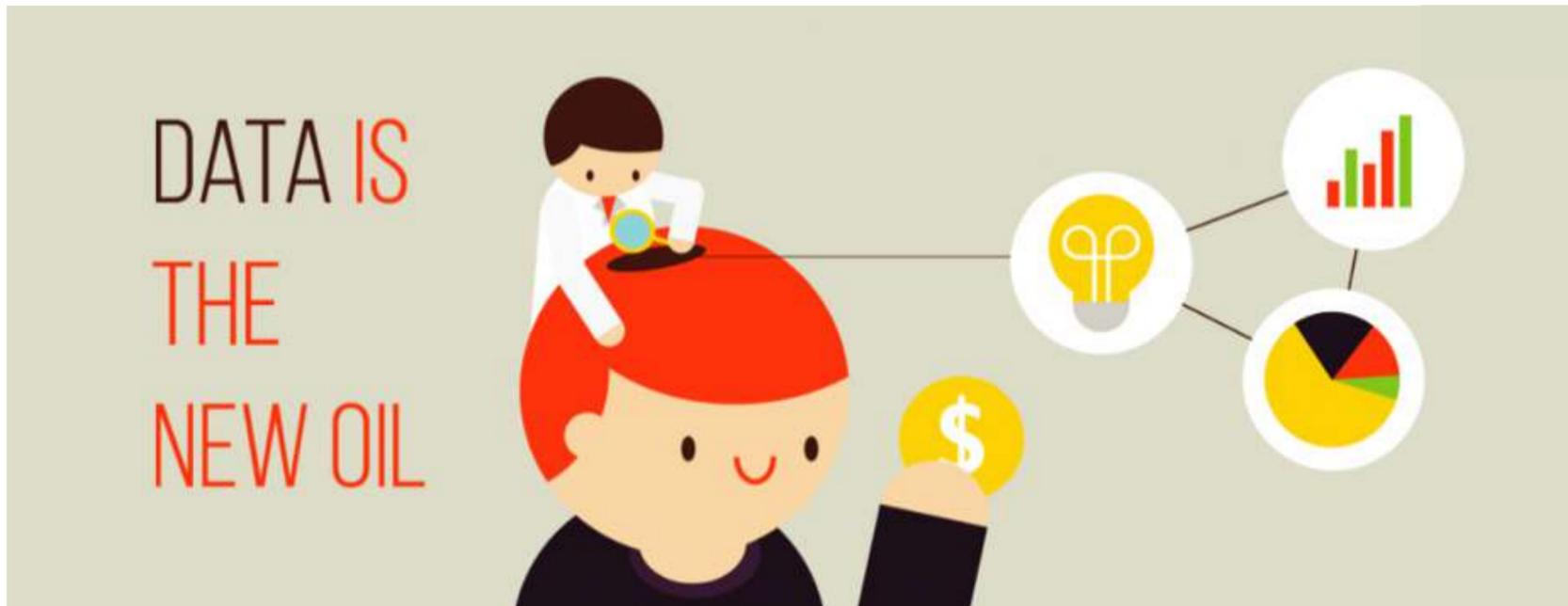
2020	Company	Founded	USBn Market Cap	2008	Company	Founded	USBn Market Cap
1.	Apple*	1976	2.152	1.	PetroChina	1999	728
2.	Amazon*	1994	1.657	2.	Exxon	1870	492
3.	Microsoft*	1975	1.617	3.	General Electric	1892	358
4.	Alphabet (Google)*	1998	1.079	4.	China Mobile	1997	344
5.	Facebook*	2004	773	5.	ICBC	1984	336
6.	Alibaba group*	1999	738	6.	Gazprom	1989	332
7.	Tencent Holdings*	1998	677	7.	Microsoft*	1975	313
8.	Berkshire Hathaway	1955	507	8.	Shell	1907	266
9.	Visa	1958	453	9.	Sinopec	2000	257
10.	Johnson & Johnson	1886	401	10.	AT&T	1885	238

Data is the new oil

Indeed, if you take a closer look at the graph above, you will see that in 2008 the largest global companies were oil companies. Now data, or rather the collection, mining and processing of data is the new oil. The role of data is absolutely key in a platform model. It generates behavioural customers' insights, risk assessment, tailor-made policy underwriting and also your targeted marketing campaigns. Insurers who can't control the treatment of this data, will have no future-proof business model. But like oil, it is difficult to extract, certainly if your operations are based on a siloed and vertical approach which is often the case with legacy systems. Data needs to be fluid and fuels the heart or engine of the platform model.

When you use the internet, you leave a footprint of data simply by using the browser and visiting a certain page on a website. This says something about your interests and what's on your mind. It's all about harvesting data. Insurers are now starting to use these connected technologies, especially for car, house and health insurance. But you need to master not only the harvesting function, but also the computing power to treat all this input and combine it with the personal customer data of your systems.

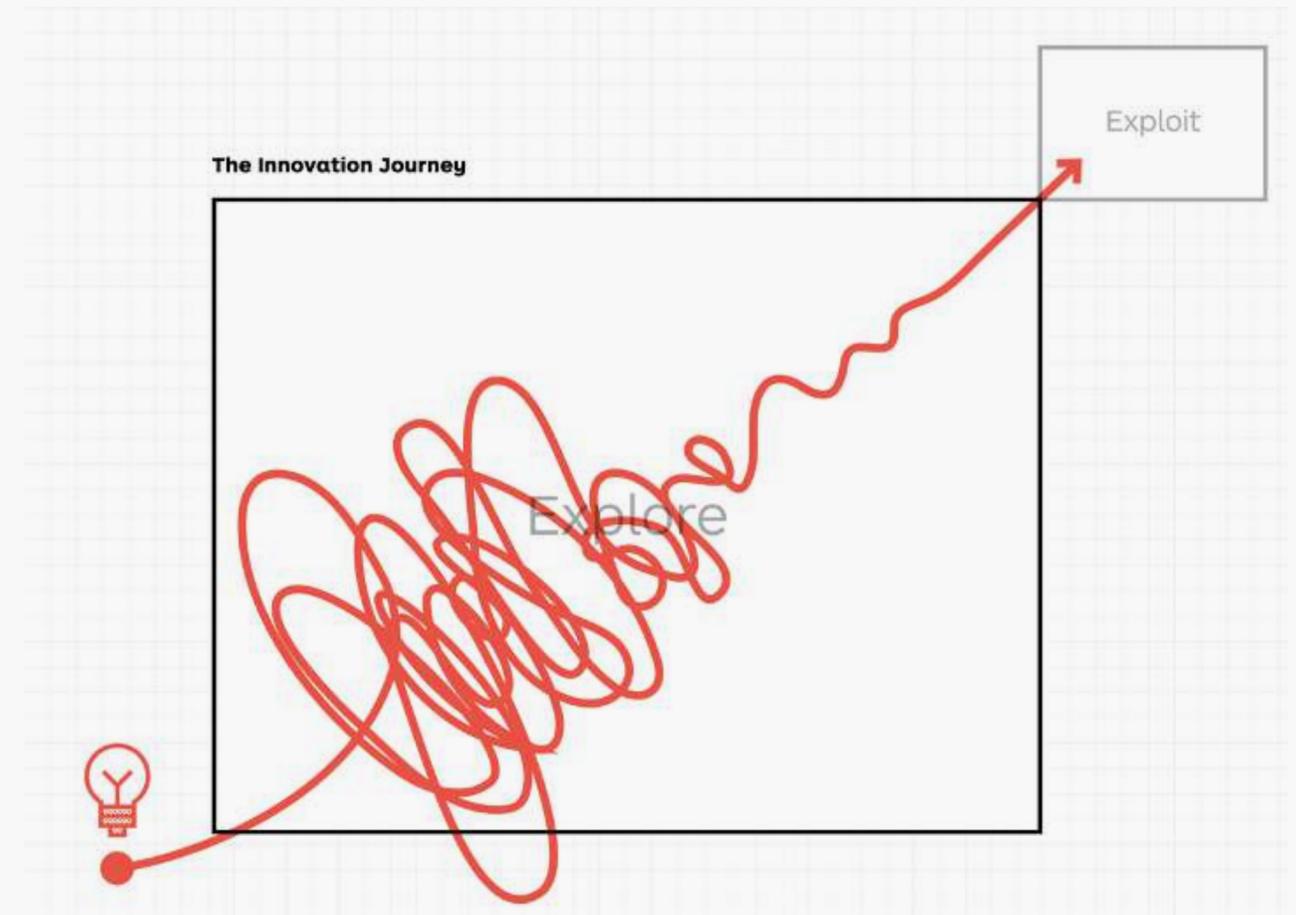
A platform is essential to nurture your customer relationship, but it will also provide access to this necessary customer data. Insurers have always relied on their analytical skills, but now the platform model will accommodate analytics to evolve and expand existing business, as in tailor-made pricing and behavioural risk assessment and let's not forget claim prevention with predictive modelling.



4. Creation of platforms

“Becoming isn’t about arriving somewhere or achieving a certain aim. I see it instead as forward motion, a means of evolving, a way to reach continuously towards a better self. The journey doesn’t end.” Michelle Obama, from *Becoming*

So, where do you start? To make your platform a success you need to start by having a clear vision on where to go and an innovation strategy to serve as a map to get there. But keep in mind you not only need to innovate, you also have to manage your current business model! The balancing between exploring and exploiting is very tricky and has a dual speed. You need an experienced partner to take you on that platform discovery journey and to ensure that your vision and strategy are followed all the way. During the whole time you engage to bring your platform to life, an agile approach is essential. However, “agile” is not just another methodology, it is a state of mind. Totally independent of which new software development methodology is trendy at the time.



The Innovation Journey from The Invincible Company
(Strategyzer Series)

Discovering the solution

Although building a platform requires a flexible approach, a good design from the start is crucial for success. Therefore, starting with a good analysis of the solution, by taking several different aspects into account, can prevent major reworks at later stages. That's why it's vital to set up a clear solution design from the start. Not just to know what features need to be implemented or what the technological blueprint will look like, but most importantly, how it will all fit together bearing in mind the complexity of the sector. We all know that software is just one part of the picture and many other important topics need to be taken into account. These can range from business impact to legal compliance, encompassing monetisation strategy, time to value, user validation, the operational model, the ecosystem participation and finally marketing. And making sure that this design is set from the start, doesn't mean it is set in stone.

Change will always happen which is why open collaboration needs to be a keystone throughout the entire platform creation. That is why it is best to first focus on defining an MVP (Minimum Viable Platform) and on the expected transactions that give more value to the solution. Maybe it is one single transaction between two different stakeholders, or maybe it's a few key transactions but with limited scope. This is all defined in a set of collaborative workshops with the relevant stakeholders, your own subject matter experts and a multi-disciplinary team. The workshops give you a blueprint of the solution that serves as the guide throughout your platform journey.

Experienced guidance

When effectively building the platform, you need to respect the vision and the collaboration mode set during the first steps. Having a trusted partner who handles the complexity and the dependencies between stakeholders and other parties can be reassuring. You know you have a steward who will guide you and can give advice when necessary, but who also knows that the destination is your defined vision. With modern technology, iterative development and frequent deliveries you are able to incorporate feedback at an early stage and avoid the exponential costs of late changes.





During this stage, not only the software needs to be built, but all the other aspects need to be taken into account to ensure a smooth platform launch. The regulatory and legal compliances need to be addressed and this can be a very complex endeavour. On the other hand, the marketing activities need to start taking place, bearing in mind the brand, the communication strategy and the solution's content. Also, early user feedback is indispensable nowadays, especially in consumer solutions where user experience can make or break a product. And of course, the more stakeholders in your platform, the more complex some of these aspects become.

Ensuring success

When your platform goes live, you need to be certain that it will be reliable and stable enough to help your vision grow and not break it down. In a world where applications become more and more complex, where cyber-attacks are an imminent threat and where expertise is scarce, choosing the right solution to host and maintain your platform can be very overwhelming. Some questions may come to mind such as: is my internal team able to handle this technology? Is my infrastructure able to cope with ever-changing and demanding internet security requirements? Can we outsource this? How can we manage the evolution of my platform without having too much impact on what is already live?

5. Technology as a service

“Technology is just a tool. In terms of getting the kids working together and motivating them, the teacher is the most important.” Bill Gates

Today, every company is a technology company. And the time to release new technology has shrunk considerably. In the past, we were used to long release cycles and time to market, the architecture and infrastructure made it difficult to move faster. But not anymore... New tools, technology and architecture makes continuous integration possible, automating the build and the test initiation to the appropriate environment. This new technology is flexible and has the connectivity power that a platform needs.

Unfortunately, this is often not achievable on legacy systems alone. A platform can either deliver this connectivity and flexibility as a stand-alone solution, or it can be deployed side-by-side to your core systems. It gives you the opportunity to have a faster time to market, the needed connectivity power and to offer an excellent customer experience with a user-friendly portal



Solid architecture

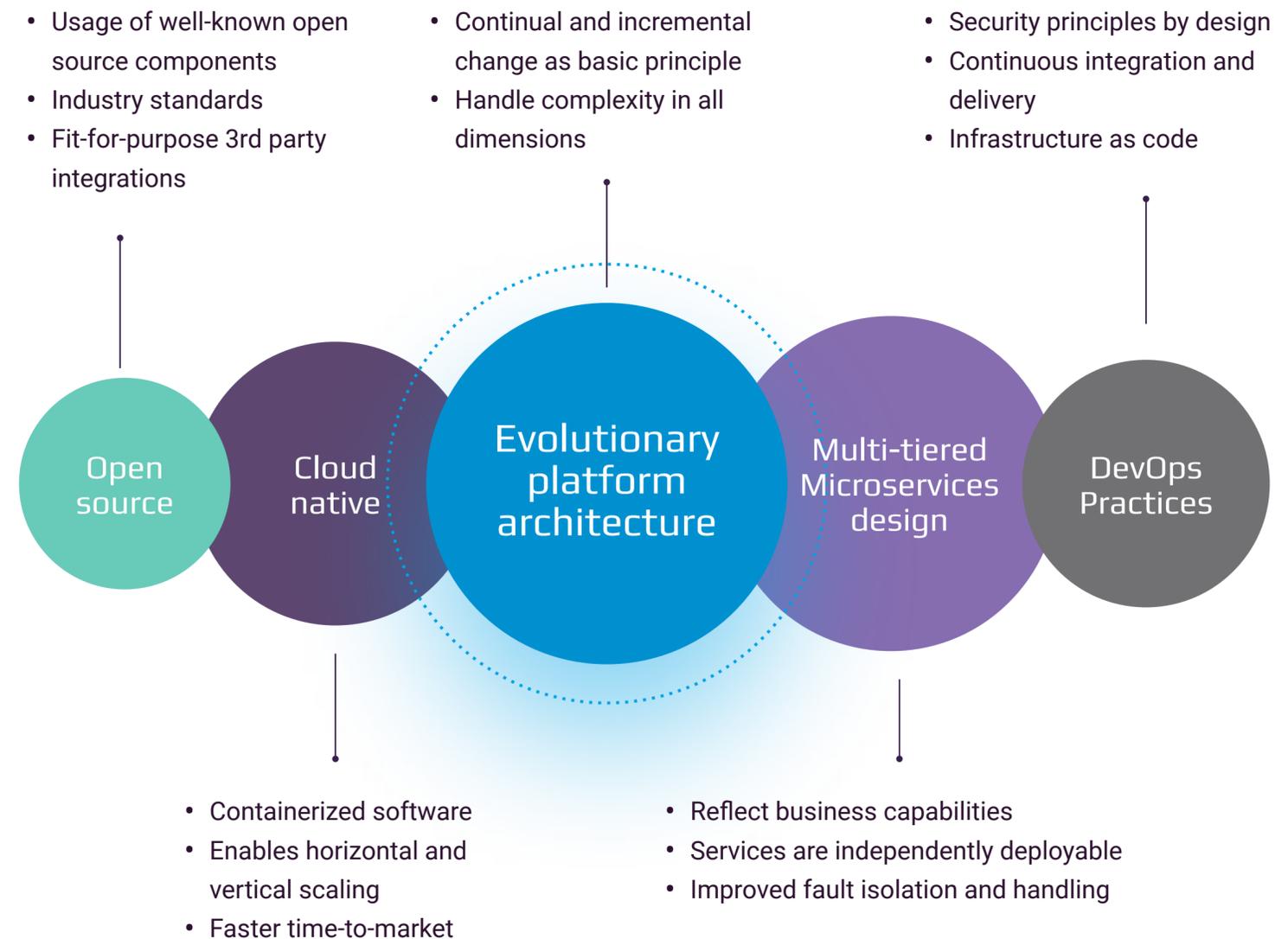
The most important decision is to have a solid, yet flexible and future proof, platform architecture. This solid layer or structure services the different components of the software, each with their own business function or service. These building blocks or components can serve the functionalities of the platform but can potentially also serve external service or data providers. Often, they are also referred to as microservices. This platform architecture gives you the benefit of independence and the possibility to evolve and scale flexibly, because implementing additional services is already in the DNA of the platform structure and software.

Data blueprint

As data will be the oil that fuels your platform, the way your data is stored and managed, is extremely important. You need to become a data-centric insurance company to anticipate for the future. This will probably require a re-design of your current data model and impact the whole company. But it can also be deployed while your current data model remains intact which is another advantage of building a platform as a stand-alone solution. McKinsey published a very interesting article on what new data architecture should be like, with six shifts to start building the data warehouse of the future.

Designing and building a platform architecture requires multidisciplinary IT skills across architecture, integrations, data layers, hosting, security and IT

engineering. It is recommended that you engage a multidisciplinary team with proven experience in this domain. It is also important to know that a platform can be hosted at your premises, if needed by regulation or internal IT policies, but it can also be hosted and maintained by a 3rd party.



Trend watching the technology

Technology mustn't mislead you into making IT choices. But the latest developments, such as *distributed ledger technology (blockchains)* could be very promising to make your company more efficient in a secure and trusted environment. Especially if you have multiple participants in the same process chain, as is often the case in the insurance industry. Blockchain's specifics make it worthwhile to keep an eye on the developments and interesting use cases will pop up soon.

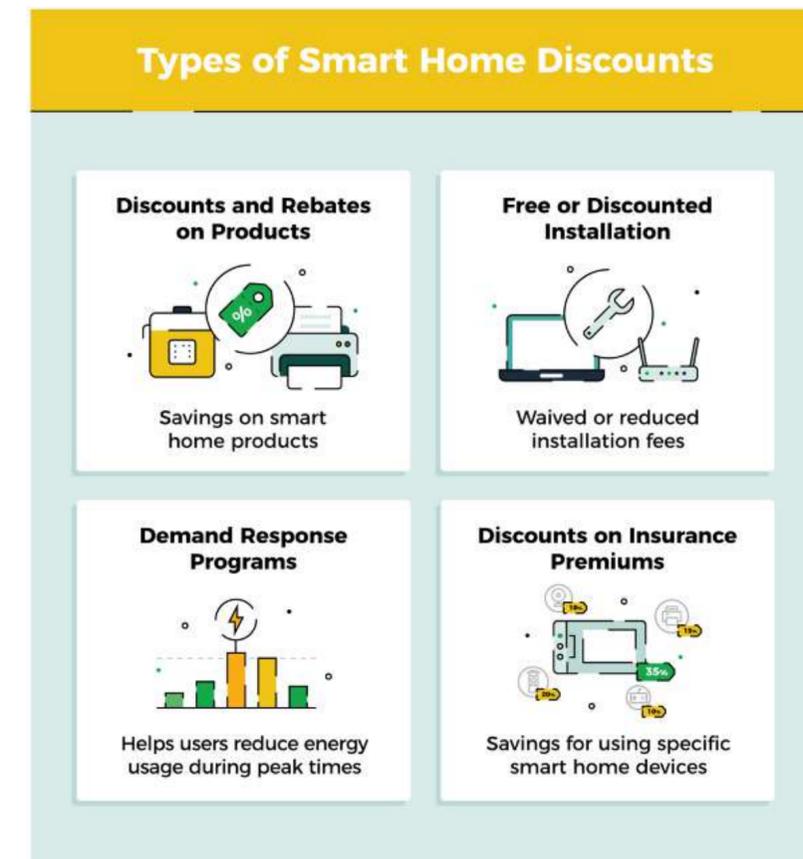
Another important game changer could be 'The *Internet of Things (or IoT)*' or connected devices and wearables. Prevention is the important motivator to include these devices in the insurance product design and offering. Consultants thought they would be adopted by the consumer a lot faster, like the connected black box in the car or home device sensors. We have seen some useful tests in practice, but the adoption ratio is lingering. Theoretically, these devices can transfer a huge volume of data to the insurer for real-time analysis to trigger a reaction. But the harvesting of the data is only the start, you will need a connected data warehouse or lake to analyse and process this data and send your reply to the customer. And let's not forget the privacy regulations you need to comply with. You can't collect and store any data, health data especially is privacy sensitive and mostly not usable for commercial purposes. And also, will your customer use it and under which conditions?

These new tech evolutions look very promising, but a great deal of work still needs to be done before this technology can be fully integrated throughout the

insurance industry. In time we will see that these technologies will be more widespread and that insurers will move away from risk protection to risk prevention. But the most important take-away of this topic is that technology always needs to be at the service of the business and customers, technology can't be the choice because it's one of today's buzz words or hypes.

Everything You Need to Know About Smart Home Discounts

Fact-checked with HomeInsurance.com





6. Pitfalls to avoid

“If you define the problem correctly, you almost have the solution.” Steve Jobs

A platform innovation roadmap is not an easy journey, it requires a great deal of effort and dedication and it will be a bumpy road. I want to share our team’s insights and experiences from previous projects so you can keep them in mind before you launch your platform business plans.

Innovation not aligned with business

The ultimate goal of innovation is sustainable growth and a future-proof business. This goal should be translated into a clear business metric, such as sales or customer satisfaction, retention and loyalty. This is far more important than the number of innovation projects that are in the pipeline. There has to be a clear connection between the innovation and your company’s business strategy and goals. And the company’s management must provide clear guidance on the role this innovation must have on the company’s strategy and what they expect from it. Only when this strategic alignment is clear to all parties involved, is your business ready to innovate.

Resources

You can't make an omelet without breaking a few eggs. Innovation requires investments on these three levels: people, financial resources and technological resources. When you launch your new platform business model, you're definitely going to spend a great deal of time on scoping these 3 success factors. Without the knowledge, skills and attitude of dedicated people, your innovation will not take off. You also need to take into account that the best teams are diverse teams of people with varied qualifications and capabilities.

The financial resources speak for themselves and are of course closely related to the technological resources. If the technical equipment and mainframe systems are difficult to access and the maintenance IT roadmap is already filled for the next two years, this has to be tackled before you can start.

Ownership

You need to make sure there is top-level commitment but also enough freedom for fast decision making and a 'yes, I can' mentality. You need a project manager and business owner who are personally committed and responsible for their contribution to this platform innovation project. And they need to be fully supported by the management and the board. That's the only way to succeed.





7. Conclusion

“To improve is to change; to be perfect is to change often” Winston Churchill

In a traditional industry, such as insurance, you are used to common practices, set in stone, that give comfort and security. For many decades, this industry could evolve and flourish, based on traditional risk modelling, linear procedures and paper-based processes. But those days are over. Society and your customers’ behaviour and expectations have changed at lighting speed. And so must you...

The road to innovation and platformisation is long and hard, with many pitfalls that need to be avoided. Sometimes you’ll be on a crossroads, not knowing which turn to take. Or you’ll end up in a dead-end street and need to start all over again. But it is a journey that is indispensable for your future, and you’ll find yourself halfway by choosing an experienced guide to accompany you on that journey.

Come and talk to us!



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