accenture strategy

Are you ready to be an Insurer of Things?

How the Internet of Things is changing the rules of the game for insurers

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# Insurance, meet the Internet of Things

The traditional business model for insurance, though still a tremendous source of revenue, is becoming less sustainable in the long term[1] due largely to the rapid innovation that the Internet of Things is driving throughout the economy.

Yet, in the midst of this disruption there is opportunity. Insurers will need to dramatically reshape their business model, combining insurance with technology, ecosystem services and partners. Insurers are about to become "Insurers of Things."

Every industry is being disrupted by the Internet of Things (IoT)— the universe of intelligent devices, processes, services, tools and people communicating with each other as part of a global ecosystem. As technology evolves, products, homes, enterprises and entire cities will be continuously connected (see Figure 1). This represents fundamental change for the insurance industry: How are things insured? With what partners? Which services and enabling technologies? The answers to these questions are the first steps toward the development of new and innovative business models.

The IoT is driving a connected, as-a-service economy, and traditional insurers must adapt quickly, deciding whether to move up or out.

Connected Home	Connected Health
Safety & Security Domotics & Entertainment Energy Efficiency	Care-eHealth Health Monitoring and Prevention Wellness
Connected Car	**Connected City**
Safety & Security Convenience Live Navigation Infotainment	Smart Meters Smart Traffic Connected Community
Connected Government	**Connected Enterprise**
Connected Public Admin. e-Government Connected Civil Protection	Real-time Analytics Connected Workforce Smart Processes Robotics

The Internet of Things
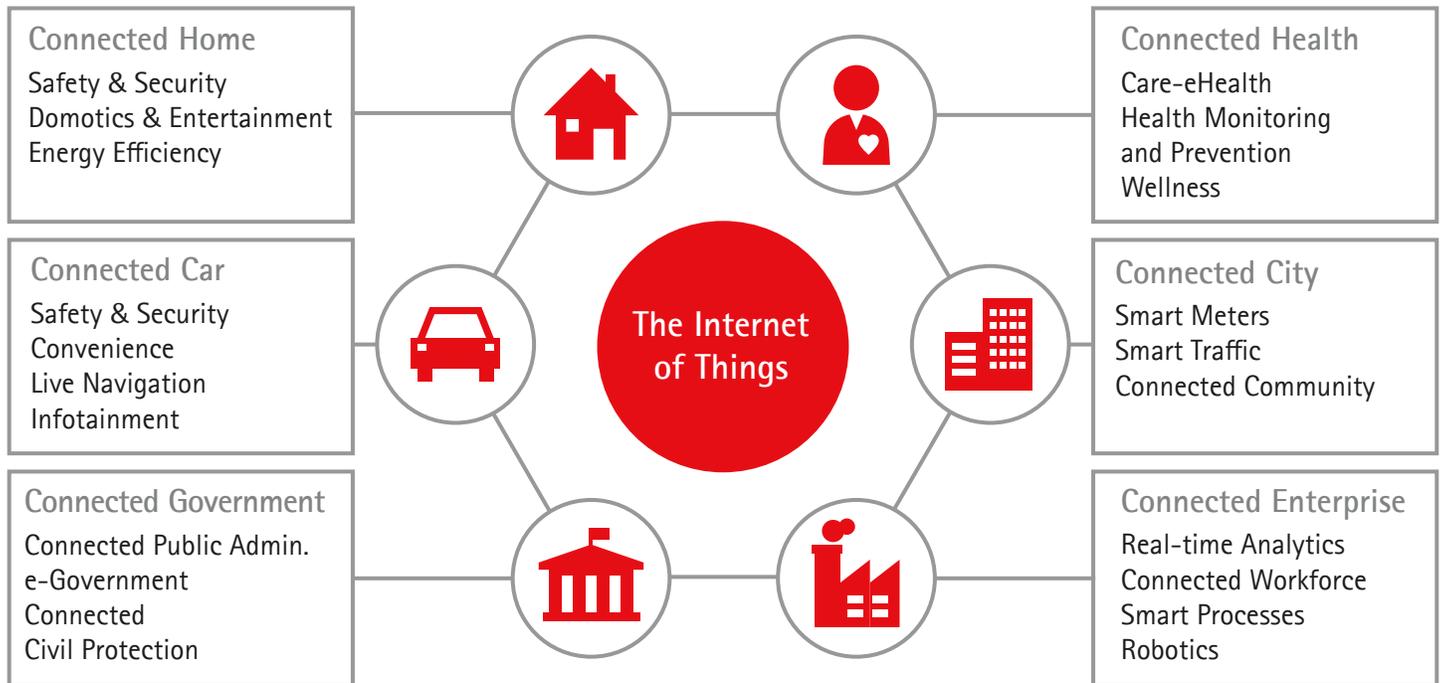
Accenture believes three dimensions of the industry will be most affected:[3]

1. Different consumer expectations

Customer needs are expanding and becoming more liquid. People are moving from "siloed" needs (e.g., buy the car, fix the car, insure the car) to a set of combined expectations encompassing multiple needs. According to the Accenture Consumer-Driven Innovation Survey, insurance customers expect a provider experience that is not only broader but also tailored to their needs: 80 percent of consumers would switch insurers for more personalized services, and 41 percent are willing to pay more for those services.[4]

The frequency of consumer interaction is changing, too. Traditionally, insurers have interacted with their customers only once or twice a year—for policy renewal and perhaps for a claim. The IoT creates the opportunity to initiate a continual, always-on, end-to-end dialogue, leading ultimately to a new type of relationship. This connectivity will expose insurers to an unprecedented amount of information. For example, 78 percent of customers say they would allow carriers access to behavioral information in return for a more personalized service.[5]

Consumer

Expecting not just a product but a unique **"always-on" service-oriented experience**

2. New offerings and new risks

Given evolving customer expectations and the transformative potential of the IoT, 83 percent of insurers believe that digital devices are powering the shift from selling things to selling outcomes and experiences.[6] Insurance coverage is becoming a part of a broader value chain with new types of products and services.

The IoT will also impact the core of insurance, as 80 percent of insurers believe that it will radically change the nature of risks covered.[7] This change will occur in two ways. First, new technologies (drones, for example) will present new risks to be insured. Second, assessment of existing risks will need to consider new parameters (for instance, self-driving cars controlled by autonomous systems).

3. New competitors and new contestable markets

According to Accenture research, 75 percent of insurers believe that industry boundaries will dramatically blur as the IoT and other platforms reshape industries into interconnected ecosystems.[8] Because insurers will position their offerings within broader networks of services, they will no longer compete just with other insurance companies, but also with players from a variety of traditional and innovative industries, creating new contestable markets.

The risk for insurance is becoming a mere commodity. The key will be to find the right partners to drive innovation, taking advantage not just of partners' assets and core competences but also their brand value as a means to respond to specific consumer need areas.

Offerings & Risks
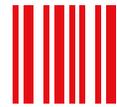
Moving from product to service, without ignoring the impact of **new risk pools**

Competition

New competitors creating contestable markets **from unexpected industries**

4

How to succeed as an Insurer of Things

How can insurers take rapid and informed action given the dramatic changes the IoT will make to their traditional business models?

Here are five key success factors as an Insurer of Things:

Success Factor 1. Choose the role you intend to play

Insurers will need to operate in extended ecosystems, so setting the rules to collaborate with partners is essential. Companies can adopt different roles for each of their markets, businesses or regions.

First, insurers can act as service providers, supplying an innovative technology-based insurance product to a third-party ecosystem, with other industry players acting as aggregators of the extended offering.

Second, insurers can be value aggregators, launching innovative and extended offerings, beyond traditional insurance, and directly selecting and managing the partners they need.

Success Factor 2. Build and work on three combined layers: product, technology and service

Insurers will need to define a connected offering model across three integrated layers: insurance product, technology, and ecosystem services (see Figure **2**).

Layer 1: Product

Choose the right core insurance coverage to be integrated in the ecosystem offering.

The insurance product should be fully adaptive to a single customer's needs and profile, moving from a standardized "one-to-many" to a "one-to-one" product. Insurers will be able to do this by leveraging a modular and flexible coverage structure and dynamic pricing.

Layer 2: Technology

Leverage the right technology to complement the offering.

This is the key enabler for the IoT offering value proposition. Technology allows the customer to connect with the insurance product and ecosystem services, and also enables ongoing consumer interaction. Insurers should be technology agnostic, always looking for the solution that best complements their specific offerings.

Layer 3: Ecosystem Services

Define and select the ecosystem services that maximize value.

Although potential services are virtually limitless, insurers must be careful in defining the right ecosystem service, making sure that it: (**1**) brings true value that is appreciated by customers; (2) can be monetized by the company, either as a direct revenue stream or indirectly through the information captured about the customer; and (3) both values and takes advantage of ecosystem partners.

Figure 2: How to build the three-layer model

	Connected car	Connected home	Connected health
	From one-to-many to a one-to-one insurance product		
Layer 1 Product	Modular and flexible structure	Dynamic pricing	Personalized through analytics
Layer 2 Technology	• Telematics boxes • Mobile devices • Dongles	• Cameras • Water sensors • Door sensors • Smart thermostats • Smart furniture • Smart lighting	• Wearable devices • Health monitoring services • Medical devices
Layer 3 Ecosystem Services	**Safety & Security** Car tracking & anti-theft; crash-detection; road-assistance **Convenience** Predictive maintenance; energy monitoring; etc. **Live Navigation** Real-time traffic and weather monitoring; route optimization; etc. **Infotainment** Real-time information on surroundings; access to social networks; etc.	**Safety & Security** Real-time alerting for dangerous events; home-access monitoring; etc. **Domotics & Entertainment** Remote home management; connected entertainment and content sharing; etc. **Energy Efficiency** Smart metering; autonomous appliances/furniture; etc.	**Care-eHealth** 24/7 remote medical consulting; electronic health records; etc. **Health Monitoring & Prevention** Real-time alerting; health networks; real-time exchange of health data; etc. **Wellness** Activity monitoring; wellness networks; reward-based programs; etc.

Success Factor 3: Extend, automate and adapt the insurance value chain

Because the IoT will affect every phase and process of the insurance business, insurers need to take a broad set of actions across the value chain.

- **Extend:** The need to manage new components of service and technology will require the development of new phases and processes. Companies must leverage partners to integrate value-added sub-processes and then outsource non-core activities for the ongoing operations of technology and execution of third-party services.

- **Automate:** Labor-intensive processes such as underwriting, claims and fraud management can be automated to improve efficiency and cost effectiveness. This is facilitated by machine-to-machine interactions and predictive analytics capabilities enabled by technologies such as big data and robotic process automation (i.e. cognitive computing and machine learning).

- **Adapt:** Ongoing personalized interaction with customers and partners requires profound operating model changes. Core insurance processes must be continuously adaptive and iterative.

Success Factor 4: Share and collaborate through an open architecture

Insurers will need to open up to the outside world of ecosystem partners—sharing not only customer data, but customers themselves. For the insurance industry, where ownership of the customer has always been a strategic issue, this will represent a significant disruption. However, it is inevitable if players wish to achieve the next level of competitiveness and gain true value from partnerships.

To encourage and support such ecosystems, IT architectures will need to evolve, ensuring flexibility and interoperability with external partners and providers.

As a consequence, insurers will have to operate in two directions: (1) orchestrating legacy evolution while (2) managing disruptive innovation, changing their IT processes to roll out faster and cheaper and managing security threats quickly and proactively.

Success Factor 5: Foster a culture of innovation

As insurers transform to become Insurers of Things, having the right technology and partners will be essential. But something more is also required: promoting a culture of innovation at all levels.

First, design a governance structure for innovation that creates and develops innovations with a fast and experimental approach. This should be done at the same time as managing the evolution of core activities, handling business as usual with a two-speed approach. To do so, new organization structures and roles, such as chief innovation officer and chief data officer, will be necessary to govern new activities effectively.

Creating an internal culture of innovation should be one of insurers' top priorities. The Internet of Things strongly affects how people are working and what is demanded of them. This new culture will need to be infused across the whole organization, from idea generation to workforce training and onboarding.

The Internet of Things — risks and opportunities

The disruptive technologies of the Internet of Things are an opportunity for insurers who act quickly. In this environment, it is critical to be an innovator across the entire insurance value chain, while operating in a broader partner ecosystem.

Effective leadership will be essential in creating a vision for becoming an Insurer of Things and then putting in place the operating models to make that vision a reality.

Considerable risks are involved in this transformation, but the risk of doing nothing is far greater.

IoT is already happening

+128%

M2M (machine to machine) connections in banking and insurance last year

Expanding at a fast pace

Total connected devices

2014		2030
14,4 Billion	>	**100** Billion

Bringing new economic growth

$14,2 Trillion

Global GDP uplift from IoT by 2030

Impacting businesses near to insurance

By 2020

200m Connected cars worldwide

±700m Connected home solutions

+1bn Wearable devices

References

1. See "Beyond Insurance," Accenture 2015. http://www.accenture.com/us-en/Pages/insight-beyond-insurance-embracing-innovation-monetize-disruption.aspx

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