



Why the insurance industry needs to rethink its value proposition

By Peter Manchester

Contributors

Simon Burtwell

5 minute read 28 Feb 2020

The fundamentals of the insurance industry are starting to shift. The new insurance ecosystem could unlock huge value.

Insurance is starting to go full circle. Just like 100 years ago, when insurance as we know it today was in its infancy, new industries are springing up that require new policies, services and approaches to managing and transferring risk.

A core driver of this change is that many of today's most valuable companies are not dependent on physical assets for their market value. Their balance sheets are heavily skewed towards traditionally uninsurable intangible assets, such as intellectual property, data, brand and reputation.

The insurance industry has started to respond to this shift, notably with cyber insurance, where the number of organizations with coverage has increased from **34% in 2017 to 47% in 2019 (pdf)**. But insurers are still struggling to find solutions that address their clients' need to protect the value of their brands, reputations and intellectual property.

This poses a challenge to traditional insurers — who are already finding their business models threatened by the rise of InsurTechs and other innovative new entrants — aiming to help protect these increasingly important intangible assets. But it is also an opportunity to redefine the insurance industry's value proposition.

For centuries, insurers have felt that their primary purpose is to help customers recover from loss. This has led the industry to worry that if their clients have fewer problems, they'll buy less insurance. This attitude — and value proposition — is not sustainable in the modern industrial and commercial world.

The purpose of insurance must also be to reduce the likelihood of loss for its customers. After all, businesses would much rather avoid losses in the first place than receive compensation for them.

The case for a new insurance value proposition

Delivering a service that prioritizes risk prevention will require a major shift in how the industry has traditionally viewed its value proposition. Insurers would need to rethink the role they play, the value they can bring to clients and how to really leverage their data to help reduce risk and prevent losses.

Despite customers' expectations that insurers' products and services will work for them in a personalized, data-centric way, commercial insurance organizations continue to sell annual products based on generalized trend data. Because of this, the core insurance product is designed to cover a generalized representation of the likely risk rather than the specific risk the policyholder is actually facing.

“Don't think about an insurance product as a commodity that is bought simply on price; it must be a service solution that is

bought based on perceived value to reduce risk and manage loss.”

Simon Burtwell

EY UK Insurance Consulting Leader and EMEA Consulting Partner

To improve their product offering, the next wave of insurers will need more robust data management systems and analytics to allow for the efficient, rapid sharing of information.

This real-time data already exists; insurers just need to take the required steps to access it, analyze and use it. By applying data analytics and AI across various functions, from underwriting and claims to marketing and distribution, insurers can make better, faster decisions on issues such as dynamic customer pricing.

For example, we recently worked with one of the world’s leading shipping companies to provide insurers with usable, real-time data regarding the position and course of a ship, allowing for real-time accurate pricing of premiums and automation of endorsements.

This dynamic pricing structure allowed the shipping company to accurately pass costs onto the freight forwarders and shipping owners whose risks it manages.

Building faster onboarding experiences in ways that will comply with regulatory requirements can be challenging. But other industries — such as financial services with **open banking** — have succeeded in developing these kinds of experiences.

Shifting perceptions about the value of insurance

This improved level of service will require insurers to expand their perspective of the industry’s broader business ecosystem — including who counts as a player — and their role within it. They must first identify how they can strengthen the value chain given their existing technological and organizational capabilities. This new ecosystem should enable more tailored service offerings that focus on the client’s specific organizational needs — which means insurers may need to specialize to deliver value.

This is where more clearly defined business models and wider ecosystem partnerships come in. Combining an insurer’s understanding of risk with the data-savvy skills of a tech-focused company, for instance, might help insurance organizations identify the necessary data insights to model intangible-asset risks and find ways to mitigate and cost them. Equally, it may be that the niche focus of capital providers or specialty insurers could combine with the reach of a global composite to deliver added value that none of these ecosystem players could manage on their own.

To succeed in this shifting landscape and maximize their adaptability, insurers will need to develop more of a partnership culture, collaborating with organizations outside their industry — or even with former competitors — to maximize the benefits the entire insurance value chain can bring to clients.

In addition to making technological improvements, the industry will need to go through a cultural transformation. Insurers need to be more open-minded and willing to collaborate to stay relevant.

At the moment, stiff competition exists throughout every stage of the insurance value chain. But developing a flexible, adaptive ecosystem of strategic alliances designed to optimize the use of real-time data and deliver to the evolving needs of clients could help improve performance and alter the fundamentals of the entire industry.

This is a huge change, but the rise of open banking shows it is possible. This has freed up the flow of data in what was previously a heavily restricted industry, encouraging innovation and improving customer service as banks focus on the areas where they can drive real value for their customers.

The new partnership-based insurance ecosystem will similarly offer more defined positions for insurers and reinsurers built on a stronger value proposition. This will help drive customer loyalty — and ultimately improve profitability — for insurers and reinsurers alike.

Innovating insurance

By reimagining how to truly deliver value for customers, insurers have an opportunity to ride the growing wave of innovation that's already starting to reshape the industry. As they redefine their value propositions and their role within the wider insurance ecosystem, a new value exchange should emerge that serves everyone better, from policy holders to reinsurers.

Summary

Insurers have an opportunity to redefine their value proposition by reconsidering the role they can play in a new, flexible insurance ecosystem. They must look beyond compensation for losses and toward helping their clients avoid losses in the first place.

About this article



Peter Manchester

EY Global Insurance Consulting
Leader and EY EMEA Insurance
Leader

Leader in insurance transformation and strategy. Active interest in new entrants. Uses leading-edge technology to transform the customer experience and insurance landscape.

Related topics

Innovation in insurance

Insurance

Risk



Upvote ↑ 19

Contributors

EY | Assurance | Consulting | Strategy and Transactions | Tax

About EY

EY is a global leader in assurance, consulting, strategy and transactions, and tax services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

© 2020 EYGM Limited. All Rights Reserved.

EYG/OC/FEA no.

ED MMY

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.