

Growth in insurance market requires business diversification

Expanding beyond traditional insurance core business to new opportunities and models



Maturity in the insurance market is forcing players to explore business opportunities beyond their traditional core to ensure growth in an evolving environment that is highly influenced by new technological trends and consumer habits. Traditionally, insurance companies have focused on maximizing new sales and investing in new products, channels, and segments. After years of consolidation, however, leading players have amassed large customer portfolios. Acquiring new customers has become increasingly costly, as winning over customers from rival firms requires great effort and significant spending on marketing. In a market where diversification within and outside the core business is increasingly found to be a success factor for companies, insurers must consider new value propositions to guarantee future sustainability. Leading players are already exploring and entering alliances with companies from other markets – as well as joining digital ecosystems – opening the gates to new audiences to target. New niche products, additional added-value services, and improved digital processes are examples of the latest trends among insurance companies seeking to expand their offerings beyond a well-known, mature, consolidated core business.

New path for insurance players

Insurance has long been a well-established, highly competitive market, characterized by a mature business model and recurrent, predictable revenues, with growth occurring primarily in the form of new customers. As players consolidate their positions, however, growing the business becomes increasingly difficult and costly.

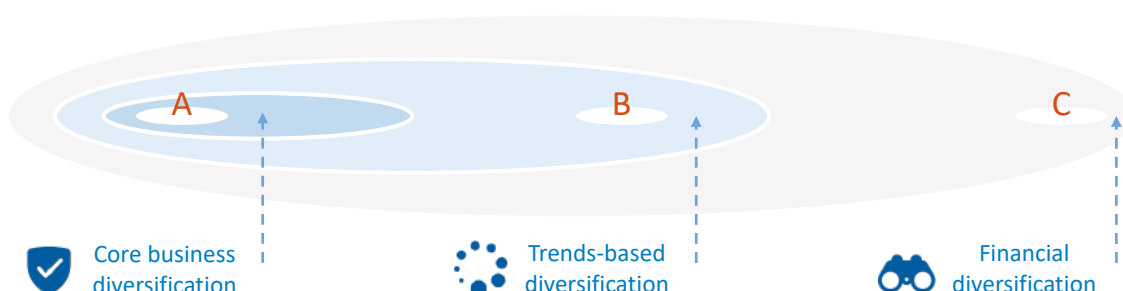
Seeking to cope with this situation, insurance companies have begun to diversify their business both within and without their traditional core, opening up to new audiences and adapting digitalization to keep pace with competitors.

Three rings to achieving growth and sustainability

Three rings of diversification

Diversification opportunities pivot around three rings, based on how close opportunities lie to insurance companies' traditional core (see figure below):

1. Core business diversification
2. Trends-based diversification
3. Financial-based diversification



Core business diversification

Diversification within the core business aims to leverage current capabilities and the company's competitive advantage to expand current offerings, with leading players currently focusing on digital insurance. Diversification at this level poses a controlled risk and usually provides growth in the short run. According to our research, core business diversification should represent around 70%-90% of insurance companies' diversification investment.

However, in order to provide bottom-line growth, diversification at the core business level needs to solve four challenges that affect the traditional insurance business model:

1. **Reduce customer acquisition cost.** Diversification must create new ways of acquiring customers at reasonable costs.
2. **Underwrite better risks and at better prices.** Diversification must provide access to new data sets with significant impact on risk selection and pricing, while enabling underwriters to better understand which data points are really needed from customers.
3. **Reduce claims and claims management cost.** Diversification must provide new levers to reduce total claim cost, such as new fraud-control capabilities, insurance procurement optimization, or new revenue streams through claims-servicing companies.
4. **Enhance the customer experience end to end.** Diversification must deliver a more delightful, seamless, and easy customer experience, especially in the "moments of truth."

On average, customers reflect on insurance only once or twice a year, and when they do, it is often due to a preexisting problem. To make up for this customer pattern, traditional insurance companies incur large investments in publicity to gain top-of-mind awareness among potential new customers.

Digital platforms take advantage of this trend, with insurance keywords among the most expensive on Google, Facebook, and Instagram (e.g., "insurance" was among the top 10 keywords in terms of cost in 2017, according to Google AdWords, at US \$48.41 per click).

Competing in brand name or bidding for expensive keywords may not be the best approach for companies trying to boost growth. The large cost of customer acquisition in traditional insurance (e.g., life, auto) is forcing companies to develop partnerships and digital ecosystems to create new sales channels. In emergent or smaller insurance products (e.g., cyber risks, electronic devices), as well as in smaller segments, keywords for online marketing are still affordable, so it remains

feasible to develop new digital brands capturing demand through online searches.

At the same time, technology advances and new lifestyles are leading to new risks to hedge against, of which insurers have no previous claim experience (e.g., electric scooters). This lack of experience means large investments by segment or product and long feedback loops, as it may take insurers years to correctly assess claims frequency and severity of new insurance types and adjust prices accordingly.

Moving toward the end of the insurance value chain, claim management also involves issues that must be tackled to ensure growth. On the one hand, claim costs directly affect the insurers' bottom line, and while companies try to reduce claim costs, customers are at the same time trying to maximize them, often leading to customer fraud. (According to AXA, detected fraud cases have doubled from 2007-2018, with 60% of the total associated with car insurance.) Digital claim management that unlocks many data points previously unavailable and partnering with data management experts will help reduce fraudulent claims.

As claim costs are the biggest cost bucket for insurers (e.g., car and home casualties), gaining larger volumes of managed claims helps insurers reduce management costs and can also lead insurers to outsource service management to specialized service platforms. Thus, specializing in certain claim services by managing large volumes through service platforms will help gain operating scale, reducing claim costs and opening up opportunities to create new revenue streams from fee and commission income.

At the same time, more frequent interactions across the entire value chain will help insurers improve the overall customer experience to match experiences in more advanced industries, potentially embedding insurance into other service offerings. Moreover, the better the underwriters understand which data points are truly needed to be asked from customers for quality underwriting decisions, the less cluttered the process will be for them. Therefore, next-generation underwriting processes must aim at integrating all available customer data from multiple data sets to reduce the number of questions customers are asked. This might lead to data-sharing agreements between companies, where typically a neutral third party is required for cross-checking and analyzing data. In addition, access to new data will necessitate the development of strong analytical capabilities and technology platforms, which will have to be created or accessed through specialized teams.

Last but not least, customer experience at the moment of truth is usually basic. Therefore, digitalizing the claiming process to make it swift and effortless for the customer, customers

should have added value (e.g., through additional services). For instance, in the case of casualty insurance, when compensation does not cover the entire casualty or claims not covered by the policy, customers can be offered access to a marketplace of complementary services at lower prices or discounts for acquiring substitute products.

Trends-based diversification

The second ring of diversification opportunities, **trends-based diversification**, relies on emerging market trends that affect the core business as well as the convergence of insurance with other industries and sectors. Thus, it implies higher risk based on these trends' uncertainty (e.g., relevance for electric vehicles and their impact in different countries), so its potential impact extends to the medium or long term and influences future sustainability. Based on our research, we suggest that trends-based diversification represent around 10%-20% of a company's diversification investment.

For instance, companies presenting an auto insurance-focused core business should further explore the automotive market, where a series of trends currently are crystalizing into new business opportunities:

- **Shared mobility** – peer-to-peer ride pooling, crowdsourced last-mile delivery services, micro-rentals, integrated mobility planners, combining motor loss notification with ride-hailing.
- **Platforms** – driver apps for hiring chauffeurs to drive one's own vehicle, parking apps to streamline the parking process, refueling apps integrating maps and price comparisons, insurance apps offering fraud mitigation through real-time driver monitoring.
- **Electric mobility** – charger aggregators, e-mobility retailers selling e-charging on a subscription-based service, battery swapping, floating charge through on-demand portable fast-charging units along the road.

Insurance companies in all markets should explore and assess trends regarding their core business to make targeted diversification before those opportunities disappear as a means of expanding their value proposition and ensuring future sustainability beyond their traditional core.

Financial-based diversification

The third and farthest ring of opportunities involves **financial-based diversification**; that is, non-core business-related diversification based on other investment opportunities that may yield attractive returns. As these must provide high returns with controlled risk, opportunities are rarer (e.g., insurance companies that enter the nursing home business). According to our research, these opportunities typically represent less than 10% of a company's total diversification investment.

Implementing diversification

Once an insurer has identified and selected diversification opportunities, it must analyze the best option given its business model. Based on the issues regarding the different kinds of opportunities available, **partnerships or creating new digital brands** may prove attractive options to dive into these new opportunities.

Partnerships

Partnerships can provide a new stream of potential customers for the insurer. Leads are typically contextualized: a customer is doing something in the partner ecosystem, and the insurer can create a tailored protection conversation, meaningful for the customer and thus with better sales conversion. The key challenge for an insurer is finding the right partner, as there is intense competition to win the biggest partners.

Large international insurers already have a compelling value proposition for big partners, such as telcos, utilities, or retailers. Those value propositions include tailored products, digital platforms, data capabilities, and dedicated teams. In addition, creating new relevant partnerships has its own timing (e.g., it took three years for one of our telco customers to move from identifying insurance distribution as an opportunity to really starting the business). Easier-to-capture opportunities are midsized partners that usually have not considered insurance distribution, where the insurance company's brand name in specific markets will be an edge.

Since there are multiple midsized potential partners available to collaborate with, companies should prioritize their targets. In our experience, a pragmatic methodology to prioritize is working with "clusters." First, we identify the key insurance products to distribute with the customers (typically using criteria such as relevance of the product for a segment, profitability, and capabilities of the insurer to compete). Then, we identify clusters (i.e., companies that share a similar business model). For instance, for a home insurance product, a relevant cluster will be digital real estate agencies. A first prioritization at a cluster level benefits from more strategic thinking, assessing the fit of the insurer and the cluster business models in terms of commercial reach and focus, operational complementarity, legitimacy to sell insurance, growth potential, saturation of partnerships, and data availability. Finally, a more detailed listing and prioritization of key players in the clusters lead to a specific set of targets to create the partnership.

New digital brands

Last, diversification can also be achieved by means of launching a new digital brand. If the business diversification opportunity is clear, a company should define its vision of how to capture it (i.e., business model, required capabilities) and involve the

digital ecosystem (e.g., boutiques, IT consulting firms, cloud and software-as-service providers) in creating the digital platform faster and with significantly less cost. However, if the business opportunity is less obvious, the best option would be to create a barely minimum viable product and test/iterate in selected niches.

Conclusion

Diversification is no longer just an option for insurers. Maturity of their core industry is pushing them to tap into new opportunities to generate profitable growth.

Among insurance companies' assets are their digital platforms, customer knowledge, and distribution networks, as well as the specific know-how to generate competitive advantages beyond traditional insurance.

Nevertheless, to guarantee the success of their diversification strategy, insurers must carefully select which of the opportunities fit best with their capabilities and ambitions to determine how best to tap those opportunities (e.g., through partnerships, new brands, and so on).

In sum, insurance companies have a unique opportunity to evolve their businesses and guarantee long-term profitable growth.

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