Ecosystems Are the Future of Insurance

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The coming shift to insurer ecosystems presents a vast opportunity for value creation.

Tesla has already changed the **rules** of the transportation and energy industries. Up next might be insurance. Earlier this year, Tesla announced that it would offer **lifetime** auto insurance bundled with the cost of the car. The company is betting that its improved machine learning will bring down the risk profile of its entire fleet of connected cars.

Tesla's announcement is only one of the many examples of how the traditional insurance model is poised for change. Traditional insurers have long relied on two customer touchpoints: at the time of sale and at the time of claim. As the world gets increasingly connected, the current data void between these two touchpoints is about to be filled.

Insurance firms are already shifting in this direction. In the past, they captured data as a one-time event, using it to statically determine customers' risk profiles and premiums. Today, they are embracing connected technologies, especially in the auto and health sectors, to offer personalised and dynamic insurance premiums to their customers.

Connected data paving the way to innovation

Some insurers, like Progressive and Insure The Box, got a head start by retrofitting cars with data-capturing devices, while others are relying on partnerships with original equipment manufacturers. Greater market intelligence gathered via these sensors and connected products allows insurance firms to offer personalised premiums. This new source of data can also inform product innovation. **Bought By Many**, a U.K.-based insurtech firm, has successfully intermediated such opportunities by aggregating users with special insurance needs – a rare illness or a unique occupational hazard – and allowing insurers to serve them at scale.

This connected model is also seeing early signs of uptake in the commercial insurance world. Logistics firms managing large shipments can gather sensor data to inform insurers on the status of shipments. Even business insurance can look at data patterns captured by cloud-based invoicing and accounting applications to determine the liquidity and credit-worthiness of parties.

But connected insurance and personalised premiums are only the first steps towards a much larger potential for value creation. The insurance industry has long monetised the promise to protect customers should an extreme event take place. With constant data capture, they can now promise avoidance of such extreme events in the first place.

New monetisation opportunities

Value creation will begin with a feedback loop training insured parties to change behaviours based on the data captured about them. Auto insurers have started experimenting with such feedback. In the U.K., Marmalade fits a **black box** behind the car dashboard of young drivers, providing them with feedback and education to improve their driving habits over time. This unlocks new monetisation opportunities for the insurer, in the form of value-added services ranging from education on better driving to tracking a stolen vehicle or a possible break-in. In doing so, insurers will increasingly compete with non-traditional insurance players.

As insurers move down this path, they will realise that ownership of consumer data can give them a great competitive edge. They will also reckon that one firm alone cannot manage all possible value creation for the end consumer. This is all the more true of insurers whose processes have been geared towards risk assessment and claim management rather than product innovation.

To exploit their data advantage while also scaling value creation, insurers will have to explore ecosystem-based approaches. In such ecosystems, the insurer will work with a range of third parties willing to offer relevant value to end customers based on their data profile. Some insurers have partnered with external platforms like Nest to track home safety indicators. However, the data ownership may still lie with the external platform. The real opportunity for insurers is in owning these data and creating their own ecosystem instead of relying on third-party ones.

Regulators will have a role to play

The transformation of insurance firms into insurer ecosystems presents a large opportunity. Unlike traditional insurance whose moat and scalability ride on a comprehensive network of agents, insurer ecosystems will be easier to defend because of network effects. The more data they will capture about customers, the more third parties will partner with them. In turn, the more third parties that offer value, the stronger the value proposition will be for the end customer. Eventually, a few large ecosystems may own the market.

Regulators will also need to understand the ecosystem opportunity if they are to enable this shift. While traditional insurance data are heavily regulated, much of the data that supports new value creation is less clearly regulated at present. For example, data on active care and cure are heavily regulated in the healthcare sector but wellness and fitness data live in greyer zones. Regulators will need to draft policies that balance user privacy and innovation.

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