



Are you ready to be  
an Insurer of Things?

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

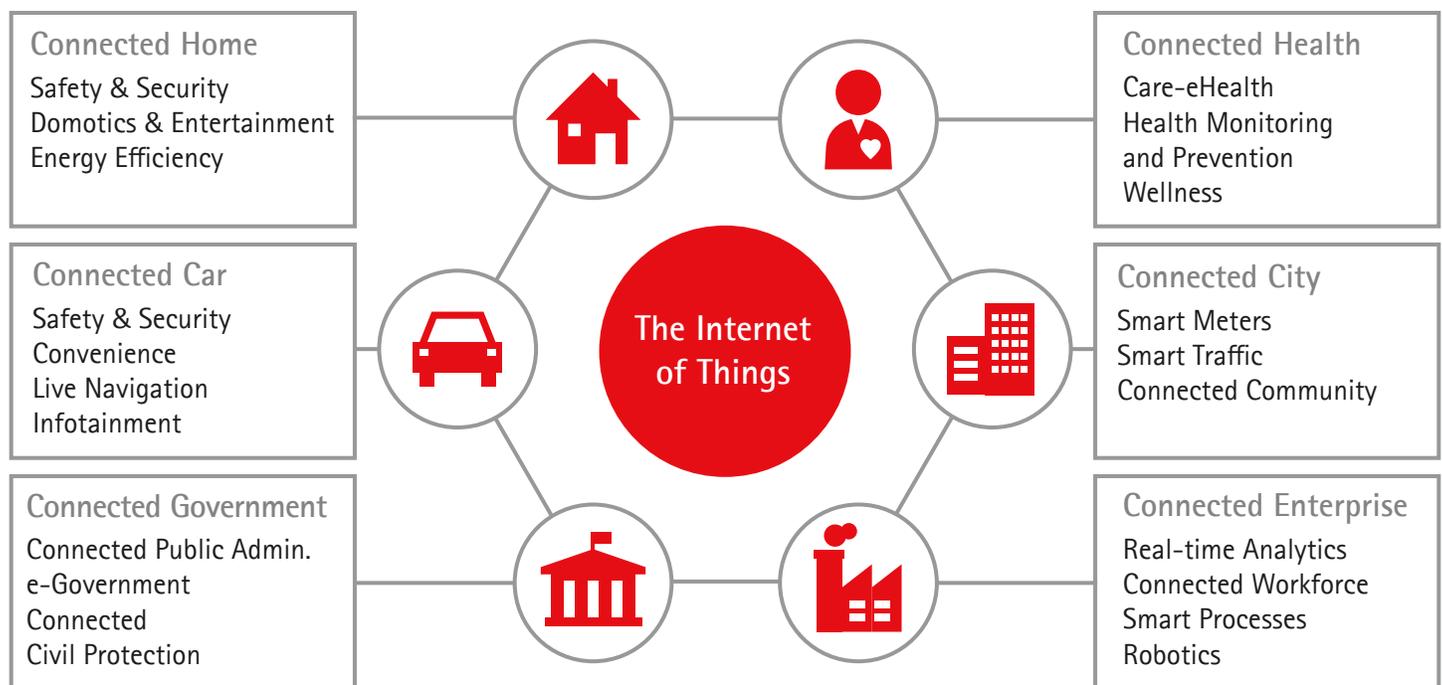
A large red chevron graphic pointing to the right, positioned behind the text "High performance. Delivered."

High performance. Delivered.



The traditional business model for insurance, though still a solid source of revenue, is becoming less sustainable in the long term<sup>1</sup> 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."

Figure 1: The Internet of Things is connecting homes, cars, people, organizations and even entire cities<sup>2</sup>



IoT is already happening	Expanding at a fast pace	Bringing new economic growth	Impacting businesses near to insurance
<p><b>+128%</b></p> <p>M2M (machine to machine) connections in banking and insurance last year</p>	<p>Total connected devices</p> <p>2014 <b>14,4</b> Billion &gt; 2030 <b>100</b> Billion</p>	<p><b>\$14,2</b> Trillion</p> <p>Global GDP uplift from IoT by 2030</p>	<p>By 2020</p> <p><b>200m</b> Connected cars worldwide</p> <p><b>±700m</b> Connected home solutions</p> <p><b>+1bn</b> Wearable devices</p>

# Insurance, meet the Internet 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.

Figure 2: The IoT will disrupt the core of insurance across three dimensions



Accenture believes three dimensions of the industry will be most affected: (1) consumers; (2) offerings and risks; and (3) competition (see Figure 2).

## 1. Different consumer expectations

Customer needs are expanding and becoming more liquid. People are moving from "siloeed" 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.<sup>4</sup>

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.<sup>5</sup>

## 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.<sup>6</sup>

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.<sup>7</sup>

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.<sup>8</sup> 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.

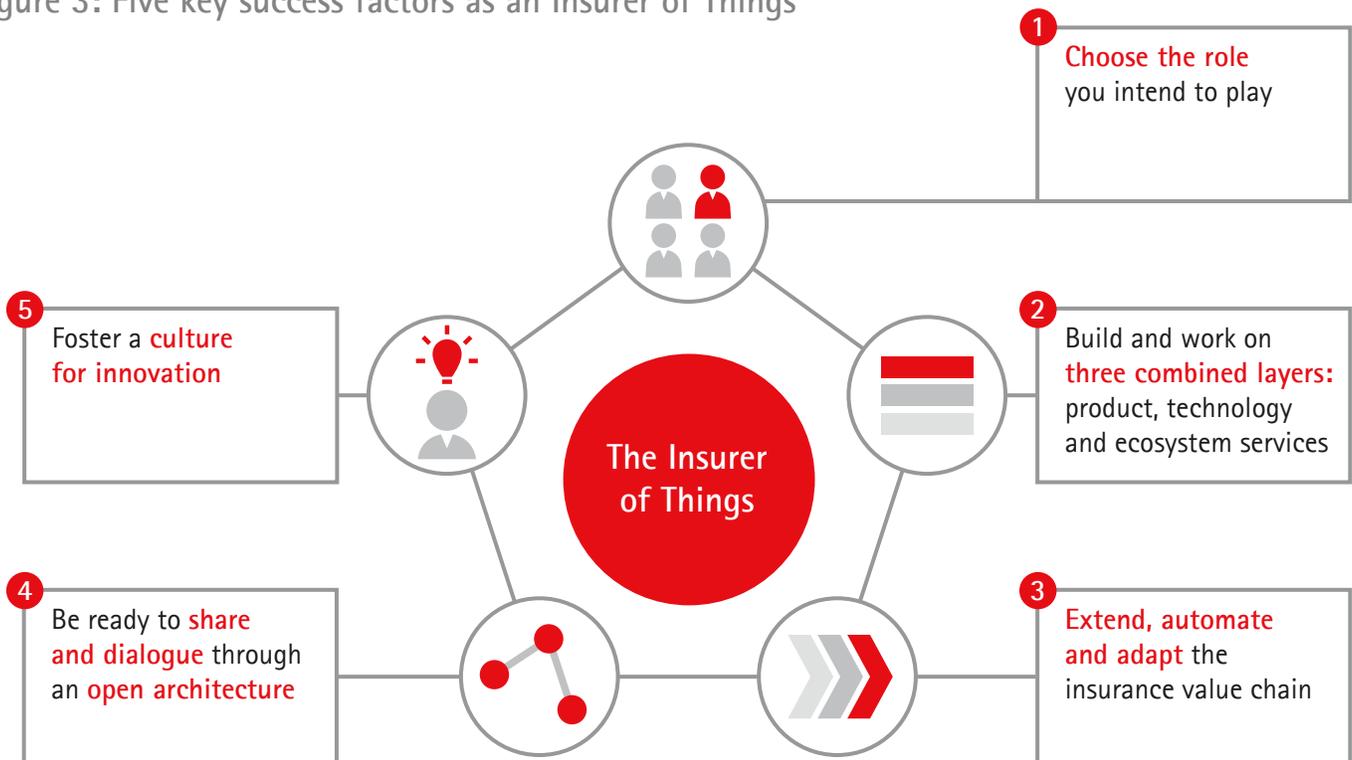
Digital innovators—especially incumbent Internet companies such as Google, Apple and Facebook—are particularly threatening as they may define the new competitive rules of the IoT economy. By leveraging their unique knowledge of customers, they could force traditional industries to follow rather than lead.

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.

# 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 keys to success (see Figure 3).

Figure 3: 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, depending on their ability to provide a truly differentiated and extended offering that reaches beyond insurance. Two roles in particular will be important:

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 4).

### 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, both personalized through analytics.

### 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.

If we look into three core businesses for insurance—car, home and health—both insurance and other industries' players have started to launch an IoT offering leveraging selected ecosystem services and technologies. However, a dominant design has yet to be defined and few have started to envision a complete and extensive strategy.

Figure 4: How to build the three-layer model



Some market cases (not exhaustive)

### 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 (e.g. fleet management and maintenance) 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. For example, new-product development should move from a mass targeting activity, occurring every two to three years for catalogue renewal, to an ongoing process tailored to individual customers to deliver a one-to-one personalized solution.

### 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. Key features would allow:

- Data monetization through the integration and enrichment of internal information together with external data provided by devices and partners.
- The ability to support a broader set of services bundled with the contribution of partners.
- Shorter time-to-market, moving from a change-run to an assemble-distribute approach, leveraging as-a-service contributions.
- Management of the whole data value chain, distributing data to exchange and extract valuable insights.

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.

A culture of innovation should also be extended outside the company to its customers. The company should support customer education and awareness, leveraging new and engaging tools and technologies while taking the opportunity to improve and enhance the company's reputation.

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.

# 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.



## References

1. See "Beyond Insurance," Accenture 2015. <http://www.accenture.com/us-en/Pages/insight-beyond-insurance-embracing-innovation-monetize-disruption.aspx>
2. Multiple sources: Verizon, 2015; elaboration on Gartner, Cisco and OECD data, 2014; Accenture and Frontier Economics, 2015; Gartner 2015.
3. Digital Innovation Survey, Accenture 2014
4. Consumer-Driven Innovation Survey, Accenture 2014.
5. Ibid.
6. Technology Vision for Insurance, Accenture 2015.
7. Digital Innovation Survey, Accenture 2014.
8. Technology Vision for Insurance, Accenture 2015.

## Contact the Authors

Gionata Tedeschi

Managing Director, Accenture Strategy, Digital and Insurance Strategy Lead, Italy, Central Europe and Greece  
gionata.tedeschi@accenture.com

Amato Della Vecchia

Managing Director, Accenture Strategy Insurance, Italy, Central Europe and Greece  
amato.della.vecchia@accenture.com

## Additional Contributors

Nicola Bosisio

Senior Manager Accenture Strategy  
nicola.bosisio@accenture.com

Dario Amendola

Senior Manager Accenture Digital  
dario.amendola@accenture.com

Giulia Di Giovanni

Manager Accenture Strategy  
giulia.di.giovanni@accenture.com

## Join the Conversation



@AccentureStrat



@AccentureIns

The views and opinions expressed in this document are meant to stimulate thought and discussion. As each business has unique requirements and objectives, these ideas should not be viewed as professional advice with respect to your business.

This document makes descriptive reference to trademarks that may be owned by others. The use of such trademarks herein is not an assertion of ownership of such trademarks by Accenture and is not intended to represent or imply the existence of an association between Accenture and the lawful owners of such trademarks.

Copyright © 2015 Accenture. All rights reserved.  
Accenture, its logo, and High performance. Delivered. are trademarks of Accenture.

## About Accenture

Accenture is a global management consulting, technology services and outsourcing company, with more than 358,000 people serving clients in more than 120 countries. Combining unparalleled experience, comprehensive capabilities across all industries and business functions, and extensive research on the world's most successful companies, Accenture collaborates with clients to help them become high-performance businesses and governments. The company generated net revenues of US\$31.0 billion for the fiscal year ended Aug. 31, 2015. Its home page is [www.accenture.com](http://www.accenture.com).

## About Accenture Strategy

Accenture Strategy operates at the intersection of business and technology. We bring together our capabilities in business, technology, operations and function strategy to help our clients envision and execute industry-specific strategies that support enterprise wide transformation. Our focus on issues related to digital disruption, competitiveness, global operating models, talent and leadership help drive both efficiencies and growth. For more information, follow @AccentureStrat or visit [www.accenture.com/strategy](http://www.accenture.com/strategy)

