Unlocking the strategic power of partnerships in insurance

Abstract

Today's insurance industry faces structural shifts driven by macroeconomic volatility, changing customer preferences, and technological advancements. Legacy operating models make it difficult for many carriers to keep pace in this fast-paced environment. Partnerships offer an opportunity to move quickly to meet shifting market conditions—without major capital investments or changes to ways of working. Business and corporate development leaders at property and casualty (P&C) and life and annuity (L&A) carriers must act quickly to build and manage their partnerships strategy to begin realizing value.

External and internal forces shaping the insurance market

Macroeconomic uncertainties are putting pressure on insurers to find new routes to profitable growth

Rising interest rates and a volatile inflationary environment have substantially affected the insurance industry's growth and profitability, and the looming threat of a global slowdown has added pressure to grow profitably beyond US GDP—without putting pressure on the balance sheet. In the first half of 2023, the P&C insurance industry recorded $22.2 billion in underwriting losses, the highest midyear loss in more than 10 years.[1]

Rising uncertainty and frequency in climate-related perils also pose new risks. In 2023, insured losses from natural catastrophes amounted to $95 billion.[2] Insurers need to both reduce risk and diversify their product portfolio to help mitigate the impact of these unexpected economic and climate losses.

The un/underinsured segment not being served by existing models is massive

Approximately 40% of insured and uninsured US adults are underinsured within the L&A market.[3] The coverage gap is largely driven by the industry's difficulty adapting to changing customer preferences and use of a traditional one-size-fits-all approach to serve an increasingly diverse market.[4] These gaps create space for carriers to bring innovative products and distribution models to market.

In P&C, inflation has raised costs to replace or repair assets, creating an unexpected lapse in coverage for many consumers.[5] Lack of education also puts many customers at risk of underinsuring assets. New products, data sources, and risk models can help carriers get more accurate coverage costs—driving premium growth and better consumer protection.

Closing the coverage gap will require carriers to be customer-centric and quick to innovate.

The evolution of technology and rise of embedded insurance are increasing expectations for convenience

Customer interactions with technology outside financial services have created expectations for personalized, easy-to-use experiences. Insurance carriers are expected to enable customers to seamlessly research, purchase, and file claims.

Demand for customer-centric experiences has driven the popularity of embedded insurance (distributing insurance policies at point of sale), which is projected to exceed $722 billion in premiums globally by 2030.[6] We see customers beginning to expect convenient and integrated offerings for a variety of insurance products across P&C and L&A.

Digital-first entrants and the shift toward an ecosystem-oriented market are driving high-touch, customer-centric engagement models

Historically, the insurance customer journey has been linear, with limited touchpoints at sale, renewal, and claim submission and payout. Digital-first entrants and innovative partnerships are revolutionizing the journey through personalized offers, claims-avoidance solutions, and other data-driven models that blur the boundaries of the value chain.

With greater access to customer data, carriers can innovate products, promote claims avoidance through behavior-based messaging, increase share of wallet, and even enable new revenue opportunities via data monetization. Legacy carriers must acquire customer engagement capabilities quickly or risk losing out on these benefits.

Carriers' legacy operating models have made it difficult to respond to these trends

Legacy technology and operating models have driven many carriers to invest in modernization efforts, but these projects can be long, high risk, and expensive.

Even as legacy tech is modernized, recruiting top talent to stay on top of new developments, such as artificial intelligence (AI), continues to be a challenge.

Carriers are increasingly leveraging partnerships to successfully position for change

Entrenched challenges leave many carriers poorly positioned to brace for macroeconomic uncertainty, keep pace with customer preferences, and compete with nontraditional players alone. Building or acquiring new products and capabilities is time-consuming, risky, and capital-intensive. Partnerships can provide speed to meet customer demands and flexibility to adapt in uncertain times—without significant investment of capital or time compared to build-or-buy alternatives.

Partnerships across the insurance value chain: Five opportunity areas

Amid the evolving market landscape and rising strategic threats from nontraditional players, insurers are increasingly partnering to bring innovative products, services, and capabilities to market faster—with lower capital requirements than homegrown solutions.

Opportunities across the insurance value chain

1. Product Development

Many insurance carriers are transforming their operating models to be more customer-centric to meet evolving customer needs. This shift challenges established ways of working for carriers, which have historically had product-centric operating models. Partners can help carriers design customer-centric offerings that meet specific customer needs. These offerings often include bundling insurance products with ancillary products or services that provide holistic coverage for customers (e.g., wellness products, wealth planning, repairs) and can provide new revenue streams through lead generation.[6]

A notable example is partnerships with smart home providers, which enable carriers to provide a holistic suite of protection services to customers. Carriers can leverage the smart home's data and relationship with customers to push claims avoidance strategies, resolve claims quickly, and even create customized offers. A large US-based carrier even entered a $1 billion equity investment in a smart home provider, evidencing that carriers see substantial value creation opportunity in smart home partnerships.[7]

There are also notable P&C examples in fintech and e-commerce (such as purchase insurance) and travel (such as customized travel insurance).

2. Sales and Distribution

Customers have grown to expect seamless purchasing experiences—driving carriers to work with new partners to reach customers before they even start shopping for insurance. These alternatives to the agent channel enable carriers to meet customers where they are during major life events (e.g., buying a home, having a family), rather than wait for customers to seek out insurance. Carriers benefit from a partner's captive audience and by reaching customers before they begin comparison shopping. Valuable distribution partners have deep relationships with customers and provide data to improve targeting and conversion.

A notable trend in this space is insurance partnerships with original equipment manufacturers (OEMs) to seamlessly distribute car insurance at the point of sale. These partnerships help customers quickly source auto coverage and receive discounts.

We also see this model in life insurance, where insurers have gone to market with wearables providers to distribute customized life insurance products. These partnerships help carriers distribute to health-conscious customers through personalized engagement and incentives and increase access to and awareness of life insurance products.[8]

3. Underwriting and Pricing

There's an urgent need for carriers to improve and innovate risk selection, given increasing macroeconomic uncertainty and customer demands for personalized products, requiring carriers to integrate new sources of data into their existing underwriting capabilities.

Telematics data, for example, provides valuable insights into automotive underwriting risks and enables usage-based policies such as pay-as-you-drive and pay-how-you-drive.[9] Big climate datasets from tech players, climate science communities, and even other carriers similarly present an opportunity to help insurers improve risk selection and responsiveness.

L&A carriers are also turning to new datasets. In hopes of tapping the un- and underinsured market, carriers are partnering with third-party data sources (such as digital health data) and InsurTechs to increase access to accelerated underwriting.[10]

4. Claims

In the increasingly customer-centric and interconnected insurance value chain, claims cannot be a reactive operation. These pivotal interactions are an opportunity for insurers to build customer retention and loyalty through seamless, personalized experiences. Insurance carriers are turning to Internet of Things (IoT) and AI-powered solutions to help customers avoid damage where possible, easily file claims, and get quick payouts.[11]

A large global carrier partnered with a microsatellite provider to access high-accuracy data (flood maps, water-depth estimates) to enable faster claims payouts globally. Access to this data gives the carrier a competitive edge through faster loss assessments and disaster-response capabilities.[12]

5. Customer Support and Servicing

Many carriers are investing in tech-enabled capabilities to streamline policy issuance, servicing, and renewals; billing and payments; and customer service.

AI-powered insurtechs have entered the market offering automated solutions and are partnering with insurers to enable digital policy administration, billing, and customer support, including AI-fueled chatbots and advice. These services improve customer experience and simplify workflows across the policy life cycle.[13]

While many carriers are using these InsurTechs as point solutions for a specific aspect of the value chain, some global carriers are partnering with tech players to build new capabilities (like Generative AI) and co-develop efficient, customer-centric services at scale and build capabilities in new technologies.[14]

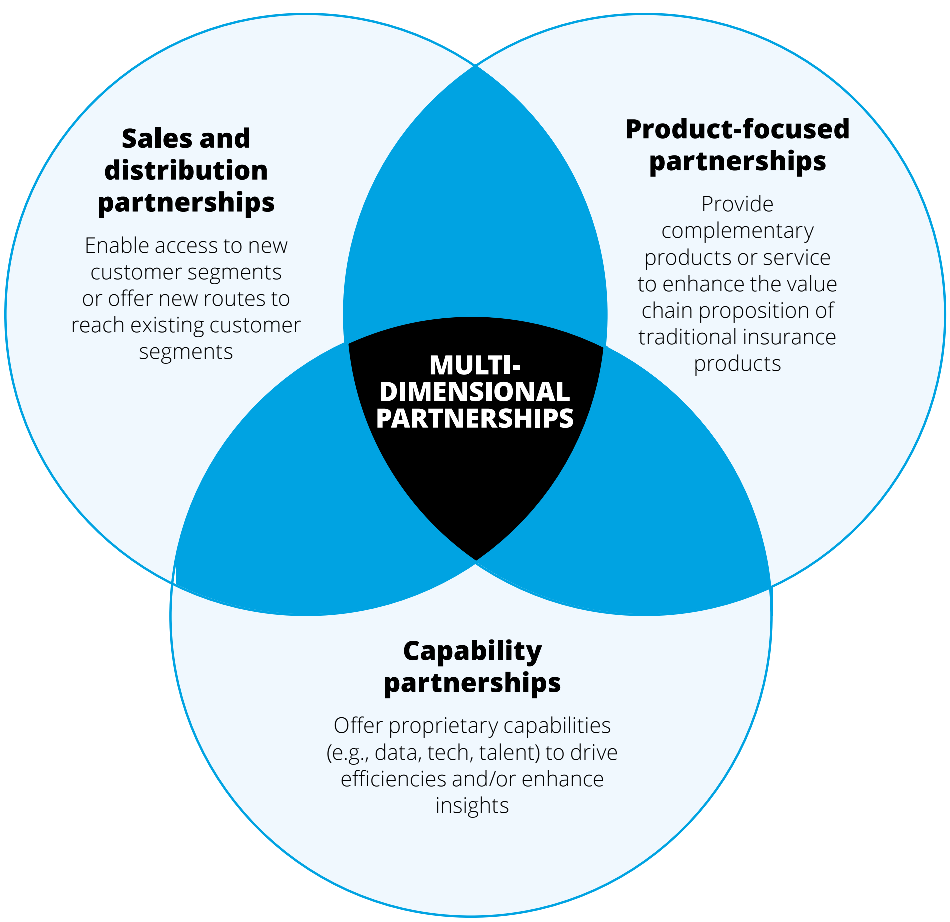
Understanding and mapping your partner landscape

When analyzing the value insurers realize from partnerships across the value chain, we broadly see three focus areas emerge: partnerships that enable sales and distribution, bring new or complementary products to market, or provide enabling capabilities.

While many partnerships are point solutions (e.g., a data partnership that enables underwriting, a distribution partnership with a broker), many of the partnerships discussed above advance multiple strategic goals. For instance, most partners that cocreate products also go to market together to distribute products. Similarly, distribution-focused partnerships can often provide data to enable innovative underwriting (e.g., OEM partnerships that enable pay-as-you-drive).

Why is it useful to categorize partnerships?

Understanding the primary focus area of an individual partnership helps insurers look at their partnership network as a portfolio, rather than a group of one-off relationships. This enables carriers to unlock more value and establish streamlined, optimized partnership management processes.



Here are three benefits to categorizing partnerships.

1. Create a balanced partnership portfolio

While point-solution partnerships with a singular focus are necessary for carriers to continue running the business, partnerships that accomplish multiple strategic goals often create more innovative and disruptive solutions for insurers.

One-dimensional partners fulfill a specific purpose for carriers (e.g., distribution to a certain market, data to enhance underwriting). Bi- or multidimensional partners typically offer an opportunity for carriers to stretch into a completely new market or offering. All partnerships can enable growth and innovation, but multidimensional partners can often have the greatest transformational impact.

Accurately characterizing partners in each of these areas may also illuminate areas where a promising partner is being underutilized. For example, many enterprise tech providers also have troves of data insurers can leverage.

2. Standardize your partnership management and evaluation approach

These three partnership models can help insurers build standardized partnership management processes, particularly for one-dimensional partnerships. For example, partnerships that are singularly product-focused will likely have consistent key performance indicators (KPIs) and processes to measure success. One-dimensional partnerships may also have similar processes to contract with partners and build and manage relationships.

Streamlining and standardizing simple processes with partnership models will free up time to focus on strategic partnership management, such as balancing innovation in the portfolio and scouting for new opportunities.

3. Inform partnership structures

Partnership models also give insurers a framework to evaluate how they want to structure partnerships. Multidimensional, transformational partnerships will require more integration and co-ownership between partners since both parties will want control over the value proposition and investment. On the other hand, a one-dimensional partnership may not require much control or co-investment (e.g., a marketing partnership requires very little cooperation between parties).

Before embarking on a jointly created value proposition, insurers should consider whether they're willing to invest alongside the potential partner and if the potential benefit outweighs any risks. Carriers should consider factors such as strategic and culture alignment with he partner; growth, cost avoidance, or efficiency opportunities the partner unlocks; and any legal, regulatory, or integration risks.

Your next steps

Partnerships are necessary for resiliency and growth in the current insurance market, but their value can't be unlocked without effective partnership management capabilities.

1. Identify strategic goals that can be met with partnerships

As carriers evaluate their strategic goals—particularly considering shifting market conditions—they should explore how they can leverage partners to achieve strategic goals with lower capital requirements than building or buying alternatives. As discussed in this paper, there are numerous opportunities to leverage partnerships across the insurance value chain to enhance customer experience, provide more holistic coverage for partners, and drive growth.

It's important to define your enterprise strategy before considering how you can leverage partnerships. Partnerships are a tool to enable strategic goals, such as reach a target segment or enhance a specific value proposition. Potential partners should be evaluated based on their ability to help carriers fill critical gaps and deliver on their goals.

2. Design your strategic partnerships capability

Strategic partnership management is a core capability to invest in to realize value from partners. Carriers must build organizational muscles around scouting potential partners aligned with strategic goals, prioritizing potential partners, and contracting and managing performance.

It is also important to consider where these capabilities should sit within the organization. While it isn't necessary to have an enterprise team, it is beneficial to have an enterprise view of partnerships to identify synergies across value streams, improve bargaining power, and ensure partnerships are connected to enterprise goals. Enterprise strategy and partnerships functions should be closely connected to ensure partnerships reflect and execute on strategic goals.

Partnerships functions should also seek to identify and develop standard processes for the different types of partners in the partnership portfolio. There may be opportunities to streamline partnership management for partnerships that deliver similar types of value (e.g., going to market with an ancillary product, leveraging data to enhance a capability).

As discussed above, partnerships functions should also seek to balance the types of partners carriers engage with. Typically, partners that disrupt multiple aspects of the value chain (e.g., product development and sales and distribution) can often have a greater transformational impact for carriers. It's important to regularly evaluate opportunities with partners and uncover areas to leverage partnerships across the value chain.

3. Track and measure success

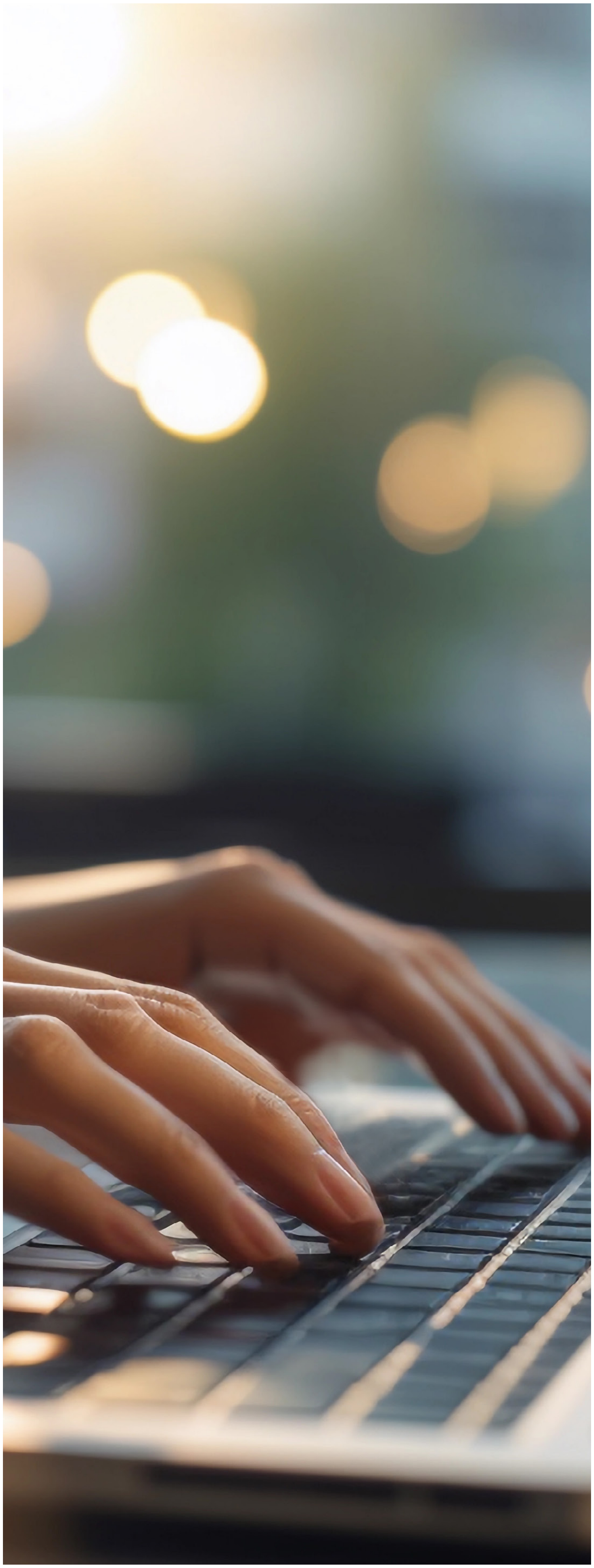
Lastly, carriers must establish mechanisms to measure the success of partnerships. Strategic partnerships functions must assign specific objectives and key results (OKRs) and KPIs to partnership opportunities at the beginning of a relationship, regularly measure performance against stated goals, and leverage data to drive corrective action. It's critical that carriers and partners align on schedules to realize value.

Strategic partnerships functions have a unique opportunity to enable carriers to innovate to better serve customers and keep up with changing market dynamics. Effective organizations will set strategic goals alongside the business, have mechanisms in place to measure success, and continuously course-correct based on data.

Conclusion

The insurance industry is rapidly transforming as it adjusts to macroeconomic uncertainties and evolving customer preferences.

Partnerships offer a fast and flexible route to market for innovative products and business models and create opportunity for carriers to meet existing customer needs and reach new markets. However, value capture requires carriers to be strategic about their partnership management processes—including investing in strategic partnership capabilities.



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Endnotes

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