

Insurance Practice

How insurers can act on the opportunity of digital ecosystems

Professor Markus Warg, an ecosystem and platform enthusiast, discusses the role that big tech will play in insurance and the importance of setting the rules of the game within ecosystems.



With the shift toward digital interaction induced by COVID-19, efficient digital services are more important than ever. This environment is causing traditional industry borders to blur and ecosystems to gain traction.¹ Players outside the industry are beginning to offer insurance products directly to their customers without the risks that insurers bear. Similarly, many insurers are beginning to provide a broader range of offerings: data-based services in mobility; consultations, prescriptions, or self-management tools related to health; and a wide range of home and financial services. These additional services can generate leads, increase customer loyalty and reduce claims in the core insurance business, and help insurers tap into entirely new value pools.

However, insurers today struggle to establish successful ecosystem strategies, even if they have a clear vision of what to pursue. Building new services requires talent, resources, and capabilities, which can compete for priority with current core-business activities. As a result, many insurers fail to achieve the speed and flexibility necessary to succeed and are unable to match the convenience offered by big tech players, who are already a part of many people's everyday lives.

We spoke to Markus Warg—a professor of service design, as well as an ecosystem and platform enthusiast—about some of the struggles that insurers face when it comes to creating value and how they might strategically overcome the hurdles associated with the influx of new ecosystem players.

McKinsey: Ecosystems are a hot topic across industries, with customer-centric data as the central currency. What opportunities do you see here for insurers?

Markus Warg: To create new value streams, insurers should work with various actors across industries to augment their own product and service offerings and improve their overall customer-service propositions. Customers experience superior service from other industries and expect this from insurance as well. One aspect of this is that insurers have to improve customer engagement to cocreate value. When the

value propositions are attractive, customers engage through both interactions and service exchange. Such interactions allow insurers to use data to understand customers and offer additional event-driven and contextual value propositions.

By integrating service exchange with cross-industry ecosystem partners, insurers can shape their roles and value propositions with customers in mind. For example, they can transform from purely insuring risks to preventing them via more holistic service offerings within a network. One example of a value-cocreation network occurs in stroke prevention. The start-up ai4medicine, which harnesses artificial intelligence and data from the hospital Charité – Universitätsmedizin Berlin, partners with insurers and customers to offer services for prevention and remote monitoring, thereby preventing strokes through personalized assistance.

McKinsey: We see many approaches in the market already, but a number of insurers struggle to realize the value of their ecosystem activities. What makes it so difficult?

Markus Warg: Insurance companies are typically focused on selling insurance policies to insurance customers, rather than broader, holistic risk and protection services. The challenge, then, is achieving a shift from goods-dominant logic to service dominant logic. This shift essentially requires a new culture. Employing goods or products as carriers of services is still important but no longer sufficient.

Take, for instance, health insurance. Health insurance's value is in covering financial risks. However, this product can be enhanced substantially through further services related to telemedicine or health management—resulting in better prevention and reduced costs through more appropriate care settings. This benefits both the customer and the insurer. Similarly, innovations such as digital care assistants prove that traditionally lengthy processes can be completed via an app in just a few minutes. At the same time, such services help to create touchpoints with caregivers along the way.

¹ For more on ecosystems, see Tanguy Catlin, Ulrike Deetjen, Johannes-Tobias Lorenz, Jahnvi Nandan, and Shirish Sharma, "Ecosystems and platforms: How insurers can turn vision into reality," March 12, 2020, McKinsey.com.

Biography: Markus Warg

Professor Dr. Markus Warg

is the head of the Institute for Service Design (IfSD) in Hamburg, a think tank focused on the development of service dominant strategies and architectures. He is the cofounder and chairman of the supervisory board of SDA SE, a

platform builder offering new industry standards for digital services. Before joining IfSD in 2019, Professor Warg held various executive positions at financial services institutions, including the role of CIO for the SIGNAL IDUNA Group. He holds a PhD in international finance

management, he lectures in service design, and he is the editor of numerous publications.

Digitization offers insurers an opportunity to provide value outside the actual use of products. However, they often struggle to offer additional services themselves, given that they also need to focus on their core businesses. To this end, insurers need to be open to collaboration to dynamically build digital capabilities, as well as open to the inclusion of others' services into their customer journeys.

McKinsey: Many big tech companies have moved into the healthcare space and are also looking at insurance. Is this activity competition or cooperation?

Markus Warg: Both. Big tech companies are already used to the process of value cocreation, and they dynamically build customer-centric data and capabilities for value propositions. HealthKit, a feature of Apple Watches and iPhones, is one example of how quickly big tech companies can build up data and cooperate with other actors to dynamically improve their offerings. Some insurers even provide the Apple Watch as part of their offerings to give value to the customer. At the same time, they can use the data from HealthKit to create incentives for healthy behaviors, thereby creating benefits for the customer in the form of reduced insurance premiums.

Insurers will always have a competitive edge in their core product, as the tech giants do not necessarily want to load risks onto their balance sheets. In that sense, there is competition around the customer but cooperation in the services provided.

McKinsey: What strategic moves should insurers take in light of new ecosystem players, such as big tech companies, OEMs, and innovative start-ups in the mobility ecosystem?

Markus Warg: I see three important steps. First, insurers must embrace the shift to service dominant strategies and gradually establish a culture of openness and collaboration, which will be necessary for the dynamic empowerment of all players involved.

Second, insurers must bring to the platform the existing organizational capabilities required for customer-centric value propositions. This means establishing experts in the respective ecosystems—for example, in mobility, health, home, finance, or well-being—and building the technological foundations necessary to integrate partners into terms-of-service catalogs and APIs, as well as to create seamless customer journeys.

Finally, insurers must engage customers and other external actors by integrating resources and engaging in service exchange for mutual value generation. My wife, for example, has just signed up for a telematics policy with an insurance company that offers not only incentives for driving behavior but also value-added services, including car sales and services. She now regularly checks whether her driving style reaches the maximum level possible. In this way, she creates touchpoints with her insurer,

and static networks are transformed into dynamic ecosystems through the exchange of service.

By taking this step and combining their organizations with platforms, insurers gain openness, speed, a focus on value, and a data-based customer understanding. This step should not be underestimated. The effort to transfer the relevant data to a suitable platform is not worthwhile for one use case or solution. In contrast to known middleware models, platforms should connect actors with open sets of rules, such as service catalogs and institutions, as well as with the process of value cocreation. Then, it is worth filling the platform step by step—mostly based on use case—and connecting it to the organization according to the strategy.

For most insurers, this is really a major shift, given that other players—including those in big tech—have a clear advantage in doing so and are more relevant to the customer in everyday

life. Therefore, insurers should join forces to build up industry platforms and potentially exchange services with each other and other actors. Doing so facilitates integration as well as empowerment of the customer so that building seamless service offerings becomes a matter of weeks rather than months. It is paramount that insurers be flexible and quick in building the foundations and then engage in developing unique ideas that add significant value for the customer.

McKinsey: How can the science of service dominant architectures inform the next ecosystem moves for the insurance industry?

Markus Warg: This is when we get to the actual “how” of this shift. Service dominant logic and service science ground the nature, scientific understanding, and systemic functioning of services, platforms, and ecosystems. This has been developed for decades and explains a lot about the rules in today’s world. I am enthusiastic about

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putting developments from science into practice. For example, service dominant architecture draws on interaction, actor-to-actor networks, data centrality, and institutions to coordinate actors and service exchange.

The next major developments will come from unifying the rules for coordinating actors in ecosystems. While only technical elements, such as APIs, used to be standardized, now even services are standardized—for example, based on Spotify's Backstage. This open-source platform offers various services that developers can build on for their own offerings.

Conversations with both insurers and start-ups have revealed an interest in common rules of business and technical services. This standardization will enable the exchange of services among insurers and across industries—and the race is on to determine who sets the rules. The exchange of digital services is the trade of the 21st century, and service platforms are the boats of conquerors.

Markus Warg is a professor of service design and head of the Institute for Service Design in Hamburg.

This interview was conducted by **Ulrike Deetjen**, a partner in McKinsey's Stuttgart office, where **Florian Niedermann** is a senior partner.

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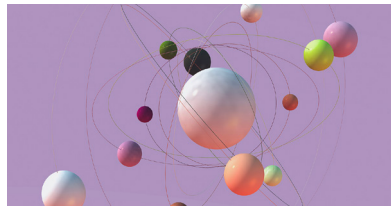
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