A MAJESCO WHITE PAPER

Digital Insurance 2.0

Playbooks for P&C Insurers to Win in the Digital Age

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MAJESCO

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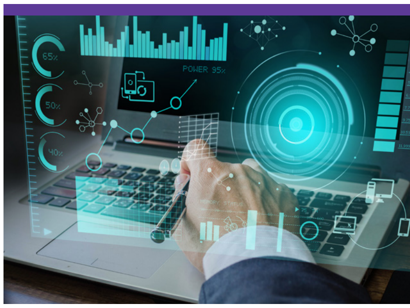


Digital Insurance 2.0:

Playbooks for P&C Insurers to Win in the Digital Age

Executive Summary

"You never change things by fighting existing reality. To change something, build a new model that makes the existing model obsolete."

– R. Buckminster Fuller

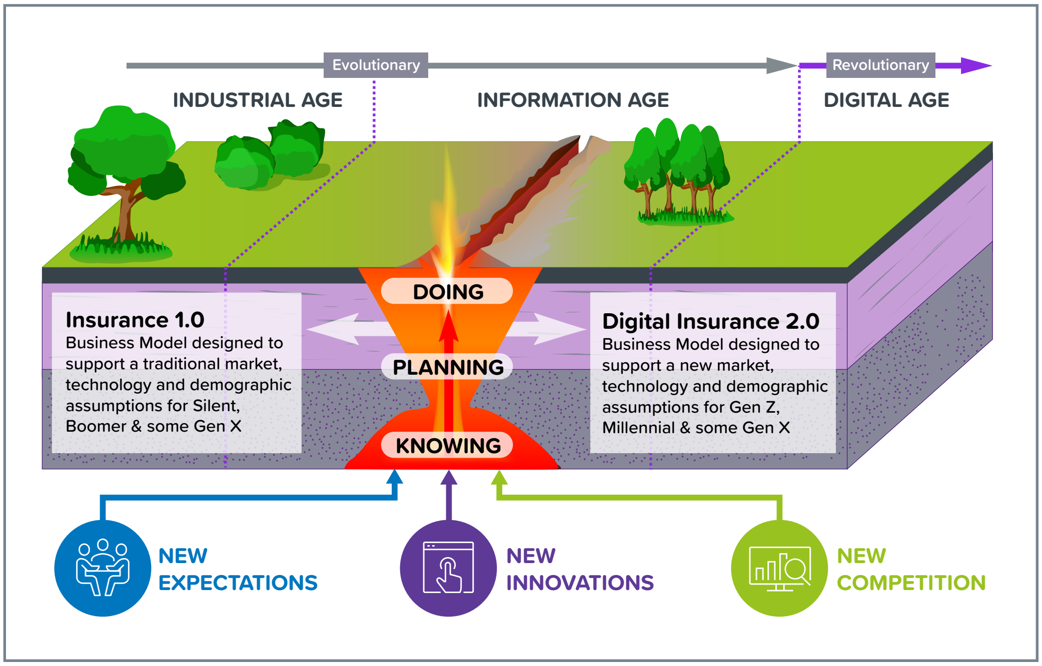
R. Buckminster Fuller is often hailed as "one of the greatest minds of our times" for his comprehensive perspective on problems within the world and as a pioneer in the design of innovative technology solutions that envisioned and imagined a new future. This quote encapsulates what leading innovative insurers and InsurTech startups are doing … building a new insurance business model or playbook that embraces the new technologies, customer expectations and shifting market boundaries necessary to succeed in the Digital Age.

Virtually every insurance company is talking about transforming their business for the Digital Age, moving from Insurance 1.0 to Digital Insurance 2.0. Unfortunately, based on our research noted in the *Strategic Priorities 2018: The Digital Insurance 2.0 Gap* report, a knowing – doing gap remains, indicating little action in building for Digital Insurance 2.0. Furthermore, the research identified two new gaps, between business and IT and large and midmarket insurers. These disconnects add to the two critical gaps identified in our consumer and SMB research, the customer expectations gap and the customer generational gap. The combination of these gaps is rapidly separating Insurance 1.0 and Digital Insurance 2.0 business models and future market leaders. So, what is the path to transform to Digital Insurance 2.0?

Just as David L. Rogers argues in The Digital Transformation Playbook, pre-digital-era companies must rethink their game plans to capture the opportunities in the digital age. He suggests that digital transformation is not about upgrading a business' technology, like our modernization projects over the last decade, but rather about upgrading its strategic thinking. He suggests that companies must rethink their traditional underlying assumptions in five domains of strategy: customers, competition, data, innovation, and value. He advocates utilizing customer networks, platforms, big data, rapid experimentation, and disruptive business models to do this.

This view is aligned to the shift from Insurance 1.0, representing business models and assumptions from the last 30 years, to Digital Insurance 2.0, which is based on new assumptions and a new business model for the digital age, underpinned by three key strategic domains that enable the shift: customer expectations, generational differences, and strategic priorities. Our 2018 Strategic Priorities report provides a strategic lens into the industry with regard to Digital Insurance 2.0, generating key questions the insurance industry must ask itself: Are we acting on the rapidly emerging digital-age gaps and leveraging our knowledge of the insurance industry and market trends? Are we maintaining our existing reality of Insurance 1.0 or are we building the future of Digital Insurance 2.0? Are we simply educated observers or are we positioning ourselves as new digital leaders?

Figure 1: Market shift to Digital Insurance 2.0



Source: Majesco

Interestingly, companies that reported higher levels of growth in the past year were also much more likely to focus on strategic initiatives like developing new business models, new products, and expanding channels to meet new customer expectations and a new generation of insurance buyers — areas that are the foundation of Digital Insurance 2.0.

Every company likely has a playbook today, reflecting their strategy and plan that shapes their current business model, products, and market segments, to get the response and results they expect. Unfortunately, these traditional playbooks do not work well in today's rapidly changing marketplace.

So how should insurers proceed? They should create a new playbook for a new digital age. Every company likely has a playbook today, reflecting their strategy and plan that shapes their current business model, products, and market segments, to get the response and results they expect. Unfortunately, these traditional playbooks do not work well in today's rapidly changing marketplace. Today's market is quickly filling with new customer expectations, new innovations and new competition.

Playbooks, and the play calling that goes with them, are critical for insurers as we rapidly shift from Insurance 1.0 to Digital Insurance 2.0. They provide strategic direction that fits with current or projected circumstances. When strategists within the business examine their industry, its market segments and demographic trends, they can apply their plays more effectively to capture new or additional market share. Those without playbooks and plays will find themselves scrambling from priority to priority, instead of confidently executing their strategies to earn the win.

Each day we see the early signs of Digital Insurance 2.0 emerge … new products introduced, new channels established, new services offered, new business models launched, and much more. It's a whole new game in insurance. Digital technologies, new competitors (with vastly different business models, products and economics), and customers (both consumers and business owners) who are rapidly embracing digital engagement approaches and are open to new, innovative products and services, are poised to disrupt, disaggregate and dislocate the insurance industry's traditional Insurance 1.0 business model. The Insurance 1.0 model, based on strong brands, agent channels and portfolios of traditional products, is operating with an outdated playbook.

In a "winner take all" digital world, rethinking decades-long business assumptions and traditional business models is mandatory. Survival and winning will require architecting and building a Digital Insurance 2.0 business model that will make today's model obsolete. Getting out ahead of the curve is more important than ever, before the crevice is too large to overcome.

Savvy, innovative companies are redefining insurance from an outside-in perspective. They are adapting to what customers want and expect, instead of following the generations-long practice of an inside-out perspective — one that requires customers to adapt to the way insurance has traditionally worked.

This report offers ideas to help insurers build their unique digital playbooks with our strategic business platform solutions and market research-based thought-leadership reports. Insurers must make transformation to Digital Insurance 2.0 a priority to reenergize their organizations through innovation and growth strategies. These efforts will build bridges, allowing insurers to traverse strategic gaps while positioning them to capture the revenue growth presented by a market shift that will define a new ecosystem of market leaders.

Pre-Game Analysis – Drivers in the Shift to Digital Insurance 2.0

In sports, pre-game analysis typically assesses the strengths and weaknesses of each team. The correlation for insurance companies is to analyze and evaluate their own games from multiple angles. They should observe market and customer perspectives as well as competitive business strategies and distinctive operational capabilities. To capture market opportunities, insurers must understand these areas and how their business can align itself to the market, before they can develop and utilize playbooks that can help their companies firmly shift into the realm of Digital Insurance 2.0.

Market/Customer: Gaps between what customers want and what Insurance 1.0 is able to deliver

At the core of the disruption and market shift is people. Fundamentally, it is the market – made up of people – that is driving the change, embracing technology, new products and new competitors and will determine which of these will win or will fade away. Customers, both businesses and consumers, are driving new expectations and defining what they deem as superior experience and value.

Insurance customer expectations are changing across multiple fronts, including demographic differences, use of technologies, and increased digital behaviors. Savvy, innovative companies are redefining insurance from an outside-in perspective. They are adapting to what customers want and expect, instead of following the generations-long practice of an inside-out perspective — one that requires customers to adapt to the way insurance has traditionally worked. These innovative companies are transforming insurance from a mysterious, confusing and difficult ordeal that is ***sold***, and most would rather avoid, to a more transparent, simple and engaging experience that is ***bought.*** The transformation is leveraging new technology, new data, new processes, and changing market boundaries to swiftly capture the opportunity of Digital Insurance 2.0.

While Insurance 1.0 focuses on the risk value of insurance, it struggles to create meaningful engagement with its customers. This can result in the view that insurance is a necessary evil — something needed but not necessarily wanted — the difference between being sold and being thoughtfully bought.

By understanding how insurance customers make decisions that activate their insurance behaviors, we can understand *why* Digital Insurance 2.0 entrants are disrupting the Insurance 1.0 business model. With this knowledge, incumbent insurers can create a digital playbook with their own unique strategies and capabilities using new technologies, processes and business models to facilitate behaviors that are beneficial to both their customers and their companies.

Low customer engagement

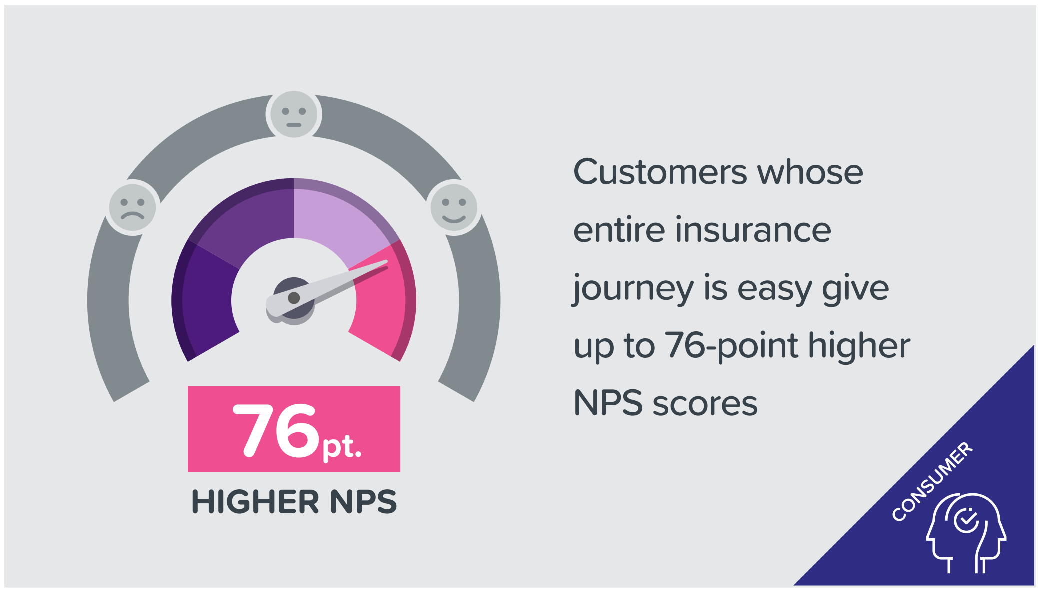
Insurance is one of the most important and beneficial inventions for society. It underpins economies, allowing them to grow by effectively managing risk. It allows businesses and individuals to thrive by reducing risk and the impact of potential losses, creating positive results that will keep a business growing and operating effectively or ensuring an individual's peace of mind. While Insurance 1.0 focuses on the risk value of insurance, it struggles to create meaningful engagement with its customers. This can result in the view that insurance is a necessary evil — something *needed* but not necessarily *wanted — the difference between being sold and being thoughtfully bought.*

While regulatory and legal requirements for certain types of insurance create automatic demand, the extensive insurance company options available in the market create a challenge in persuading customers to select *one particular insurer* over its competitors, and then convincing customers to be loyal by consistently renewing. On the flip side, there are still underserved markets reflected in the low penetration rates of discretionary products like renters, umbrella or cyber risk insurance. Insurers may see opportunities here, but the hurdle in these markets is communicating a case for necessity. In both cases, insurers face hurdles in creating customer interest, value and engagement.

Insurance brand selection and loyalty

Majesco's 2016 research with consumers and small-medium businesses (SMBs) documented low levels of attitudinal loyalty to insurers, in comparison to other types of businesses with which they interact. Indeed, net promoter score (NPS) gaps between insurance and Amazon reached as high as 73 points for consumers and 68 points for SMBs. J.D. Power also reports that large commercial insurers get much lower NPS ratings than other business suppliers like utilities, or personal auto insurance.[1] However, our research also found that when insurers are able to make the customer's entire insurance journey easy, there is a strong, positive impact on NPS, up to 76 points for consumers and up to 80 points for SMBs (see Figure 2).

Figure 2: NPS impact of an "easy" insurance customer journey



Our research found that when insurers are able to make the customer's entire insurance journey easy, there is a strong, positive impact on NPS, up to 76 points for consumers and up to 80 points for SMBs.

If price is a key driver in customer decisions, and the continued emergence of Digital 2.0 comparison sites like Compare.com, The Zebra, and Insurify remove the friction of comparing prices and switching, then insurers that offer little differentiating value will find themselves in a "race to the bottom" based on the lowest price.

The Harris Poll's 2017 *EquiTrend Study* on brand appeal showed that, despite higher insurance engagement among Millennials compared to older generations, consumers overall "struggle to identify property and casualty companies as a good fit for them or as companies they share values with"[2] — even when some exceptional brands like USAA, AAA and State Farm distinguish the marketplace.

Required insurance market threat

Surprisingly, low loyalty and engagement has resulted in very little attrition and switching within U.S. personal lines insurance companies in the recent era of Insurance 1.0. J.D. Power's annual auto insurance shopping study shows that just 33% of auto policies were shopped in 2016, down from 39% in 2015.[3] Among customers who shopped, only 30% ended up changing carriers, for a net switching rate of about 10%. Their 2017 study showed shopping and switching rates have remained flat.[4]

The low attitudinal loyalty combined with relatively high behavioral loyalty (i.e. low switching rates) suggest that **inertia** is a key factor of carriers' retention rates. The JD Power study results consistently illustrate that the reasons for shopping and switching primarily come down to price, cost and/or poor service – elements that influence customers and drive them out of their state of inertia because of negative experiences.

In contrast, insurer switching among small-medium businesses in the U.S. is higher than what is experienced for personal auto. A 2017 Deloitte survey of U.S. mid-market businesses found that 25% had switched one of more of their carriers in the past year, and an additional 43% had done so within the past 1 to 3 years. The study also found that price is the prime motivator for shopping and switching.[5]

In the UK, which is roughly 10 years ahead of the U.S. in terms of online auto insurance comparison shopping, the story is dramatically different. Shopping rates for auto insurance range between approximately 82% and 87% since late 2016 and mid-2017, with 40% ultimately switching carriers.[6]

Given the importance of price in the selection and renewal (loyalty) process for U.S. personal and commercial lines customers, the UK experience is a warning. If price is a key driver in customer decisions, and the continued emergence of Digital 2.0 comparison sites like Compare.com, The Zebra, and Insurify remove the friction of comparing prices and switching, then insurers that offer little differentiating value will find themselves in a "race to the bottom" based on the lowest price. New Digital Insurance 2.0 businesses like Metromile, Root and Zendrive are demonstrating how digitally-driven customer engagement can overcome pure price-based competition in auto insurance.

For required coverage, new Digital Insurance 2.0 models are challenging price and tolerable service levels by exploiting the disconnects between Insurance 1.0 insurers and their customers.

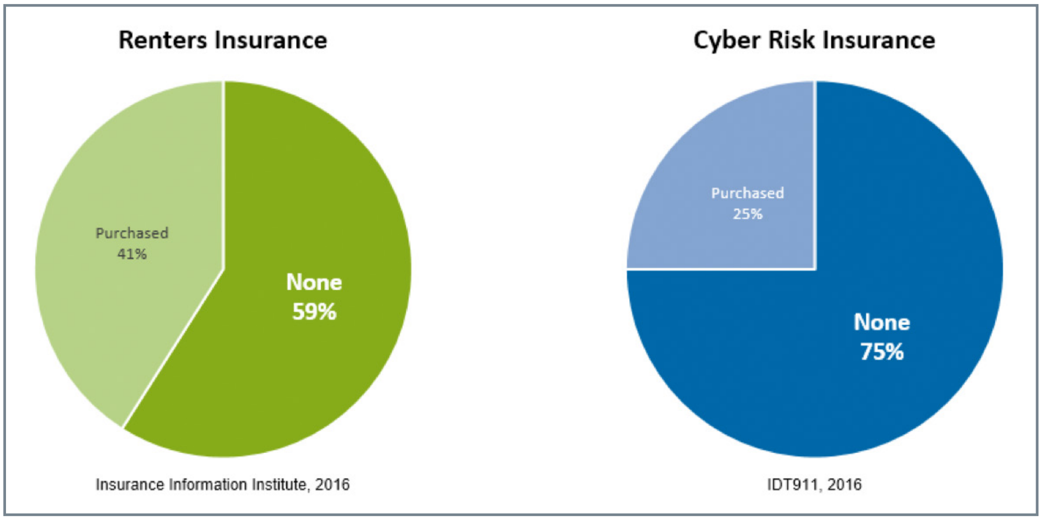
For required coverage, new Digital Insurance 2.0 models are challenging price and tolerable service levels by exploiting the disconnects between Insurance 1.0 insurers and their customers. They are introducing simplicity, transparency and new engagement methods for required products by aggressively harnessing new technology and data, growing their understanding of customer needs and preferences, and creating an "Amazon like" experience.

Discretionary insurance market opportunity

The Insurance Information Institute cites a 2016 study which estimates that only 41% of renters have renters insurance (while low, it is a significant improvement over the 29% reported in 2011).[7] Given the low average cost (about $16/month), it is presumed that lack of awareness is the purchase barrier rather than cost. For example, renters commonly underestimate the total value of one's belongings or operate under the false assumption that they are covered by the landlord's policy.

Estimates of cyber risk insurance penetration vary widely. A 2015 survey by Advisen estimated less than 3% of small businesses and about 25% of the largest businesses had it.[8] A 2016 survey by IDT911 reported that "75 percent do not have cyber insurance, or are unsure if their policy includes cyber protection."[9] However, most agree that market penetration for cyber coverage is lower than it should be, given the rising threat cyber risk presents to all businesses. A 2017 survey sponsored by Hiscox identified a *perceived lack of relevance* and *complexity of cyber insurance policies* as two major barriers to purchasing cyber risk insurance.[10]

Figure 3: Purchase rates of discretionary insurance products



In contrast, Digital Insurance 2.0 players like Lemonade and CyberPolicy, which target renters and cyber, use digital technology and platform business models to simplify, engage and make insurance more transparent. As they educate and increase interest and promote the reasons for customers to buy and switch to them, they will steadily increase their threat to Insurance 1.0 players.

The same strategies applied to required coverages by Digital Insurance 2.0 entrants are being applied to discretionary coverage products, tapping into underserved or unserved markets or market segments. The impact is that the new Digital Insurance 2.0 players are setting the bar for these markets, which incumbent insurers have limited success in reaching, creating the potential of losing these market opportunities to the new players.

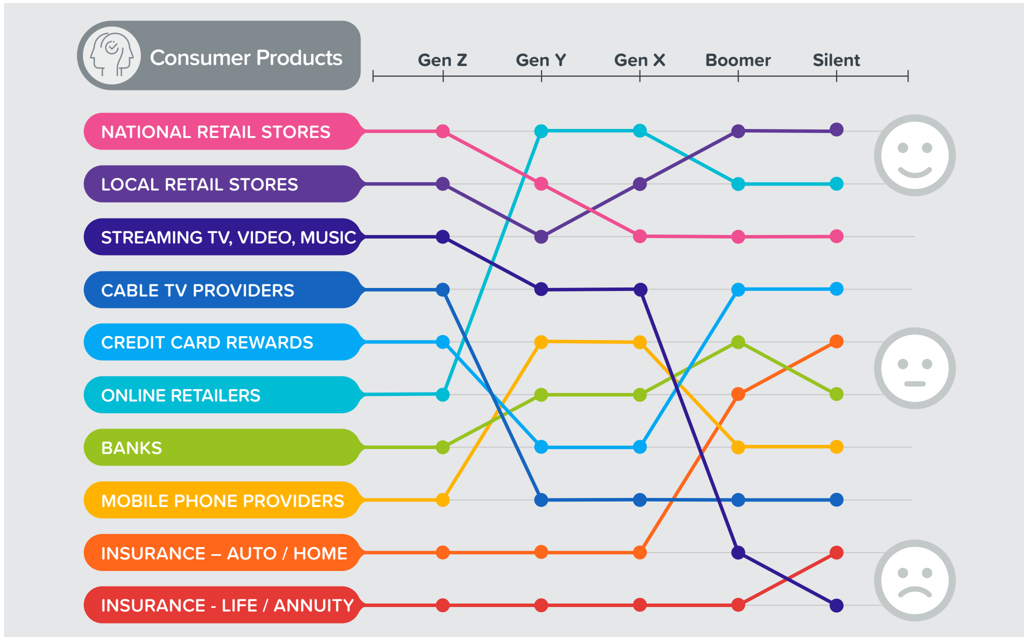
- Lemonade reported in June 2017 that "in the State of New York, Lemonade appears to have overtaken Allstate, GEICO, Liberty Mutual, State Farm and the others in what is probably the single most critical market share metric of all"... first-time renters insurance buyers. As of January 2017, only a few months since launching, Lemonade and had captured 1% of overall market share in New York. And from a survey done in April, they indicated their New York market share grew to 4.2%.[11]
- Emphasizing the impact of this, Lemonade further noted that for homeowners insurance in the US, a 1.6% market share makes you a *top 10 insurance company*. And this exclusive club has been at it, on average, *for 104 years*. Lemonade launched in September … it took only 9 months to achieve 1% without traditional expensive marketing. And, they are continuing to grow exponentially.

The same strategies applied to required coverages by Digital Insurance 2.0 entrants are being applied to discretionary coverage products, tapping into underserved or unserved markets or market segments. The impact is that the new Digital Insurance 2.0 players are setting the bar for these markets, which incumbent insurers have limited success in reaching, creating the potential of losing these market opportunities to the new players.

Product and process complexity

Consumers do not associate "easy to do business with" with insurance companies. Majesco's 2016 consumer research, *The Rise of the New Insurance Customer*, revealed that, compared to other businesses with which consumers interact, insurance ranks at or near the bottom in terms of being "easy" to research, buy and service, with insurance at the bottom. Even cable and mobile phone companies, industries with traditionally poor service, ranked higher. Streaming options highlight the digital entrants' impact on cable companies, earning significantly higher ratings in being "easy to do business with," particularly for the younger generations (see Figure 4).

Figure 4: Consumers' perceptions of insurance product complexity

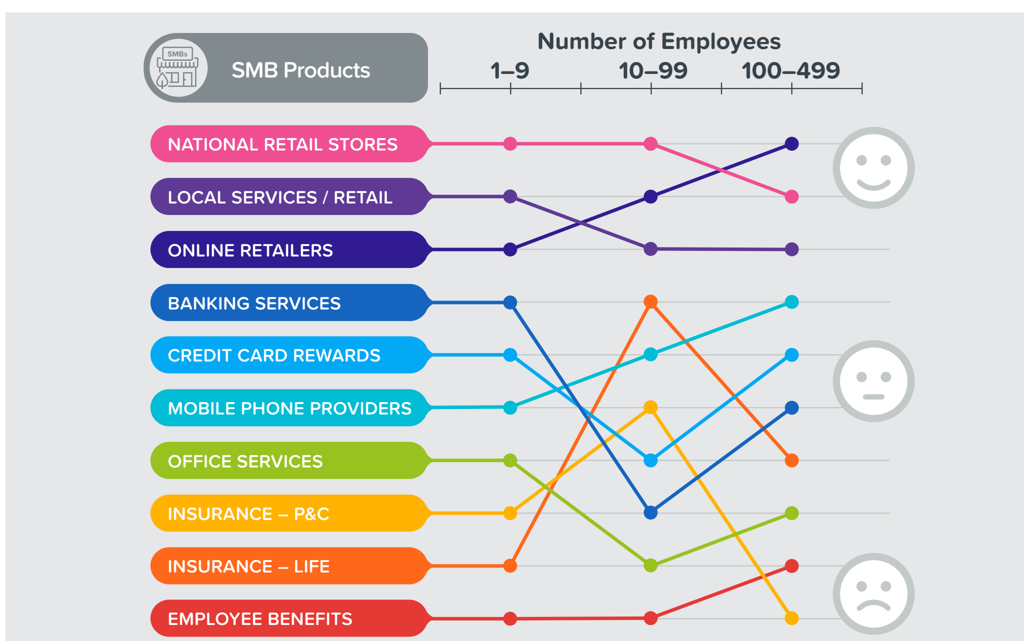


Source: Majesco

Consumer perceptions of insurance's "ease of doing business" across five generation groups reflected a strong digital divide. Older generations, Silent and Baby Boomer, perceived insurance as "easy to do business with," likely due to the fact that the Insurance 1.0 model was designed around them, including the products, service and agent channel. In stark contrast, the younger generations, Millennial and Gen Z, were least satisfied, highlighting why the next generation is more open to Digital Insurance 2.0 products and models, and is leaving incumbents behind.

The companion research for SMBs, *The Rise of the New Small-Medium Business Insurance Customer*, showed similar results across three segments based on employees (1-9, 10-99, and 199-499), indicating insurance is not "easy to business with." Compared to other businesses and suppliers, SMBs ranked insurance at or near the bottom across all three segments (Figure 5).

Figure 5: SMB owners' perceptions of insurance product complexity



Source: Majesco

The consequences for Insurance 1.0 players are significant. The traditional model fosters disengagement and disinterest, reinforcing a view that insurance is a commodity or "necessary evil". This disengagement and disinterest is being addressed innovatively by Digital Insurance 2.0 players.

These results reflect the inadequacy of the Insurance 1.0 business model to meet the unique needs and expectations of SMBs. More importantly, given the traditional agent model, Insurance 1.0 does not effectively fit these SMB segments, in particular the two smallest ones, creating an unserved or underserved market. Furthermore, Insurance 1.0 pursues a "one size fits all" approach, creating an expectation gap by size of business. This year's SMB report, *Insights for Growth Strategies: The New SMB Insurance Customer*, underscores the expectation gap based on the business owner generation.

The consequences for Insurance 1.0 players are significant. The traditional model fosters disengagement and disinterest, reinforcing a view that insurance is a commodity or "necessary evil". This disengagement and disinterest is being addressed innovatively by Digital Insurance 2.0 players that are changing the underlying assumptions, products, processes and business model. Digital Insurance 2.0 players are setting the bar on how to reach the SMB market, putting traditional insurers at risk of being irrelevant.

Changing customer behaviors, expectations and risks

The insights from our 2017 consumer and SMB research underscore an accelerating interest in using new technologies, new products and engaging in new activities that are reshaping insurance. We saw broad, increased experience across 6 digital trend categories, with strong participation by younger generations of consumers and owners of SMBs (see Table 1). As these digital trends and activities become commonplace, insurers must at a minimum be on par (but to be relevant and competitive, must be ahead of the curve) in creating experiences, products and services that align to this new digital paradigm.

Table 1: Digital trends and activities

	Consumers	SMBs
Gig/Sharing Economy	Participation in Gig Economy activities across all generations is in alignment with market estimates. Consumption of ridesharing services is a dominant behavior across all generations. Home/room sharing services are used about 50% less, but have a strong and growing appeal.	All SMB segments are actively engaged in the Gig Economy, both as providers and employers. The smallest companies are most likely to have been an independent business as an independent contractor.
Connected Devices	Connected devices are popular. Fitness trackers are the most popular across all generations. Nearly 33% of Gen Z and 25% of Millennials use connected home devices.	Strong use of apps and connected devices in buildings across most segments, with the highest use of 44% by Gen Z/Millennials and Gen X owners for companies with 10-99 employees, followed by 33% in the largest companies. Nearly 33% of Gen X/Millennials owners with 1-9 employees and Gen Z/Millennial and Gen X in companies with 10-99 employees actively use this technology.
Payment Methods	Use of ApplePay and SamsungPay saw strong year-on-year growth, with over 33% of Gen Z and Millennials, and 25% of Gen X using them regularly.	Use of ApplePay and SamsungPay is strong among all segments except Pre-Retirement Boomer owners with less than 10 employees.
Channels	Across all generations, 22% to 38% purchased insurance from a website, with Gen Z /Millennials leading the use of this channel.	Most SMB segments have purchased insurance from a website, with Gen Z/Millennials leading the use at 19% to 39%.
Products	On-demand insurance was strong with 25% to 30% purchasing it for a specific item or event.	On-demand insurance was strong, with 13% to 41% purchasing it for a specific event, particularly among Gen X and Pre-Retirement Boomer owners. Between 30% to 50% of Gen Z/Millennial and Gen X segments are using cloud-based subscription products. .
Emerging Technologies	Gen Z and Millennials lead the older generations in their use of drones and 3D printers (or items produced by one).	Gen Z/Millennial owner segments slightly lead the older generations in use of drones and 3D printers (or items produced by one) with usage at 10%-13%. 30% of the Gen X/Boomer 100-499 employee segment use 3D printers.

A new generation of insurance products based on the increasing experience with digital activities and technologies is emerging from Digital Insurance 2.0 companies.

A new generation of insurance products based on the increasing experience with digital activities and technologies is emerging from Digital Insurance 2.0 companies. Our 2018 consumer and SMB research decomposed a range of new insurance products into 30 attributes covering 6 categories (Quote/Buy, Pricing, Manage, Context, Value-Added Services and Social) and assessed consumers' and SMB owners' likelihood of buying or using them. The results highlight a clear generational digital divide in considering *new* insurance capabilities and offerings.

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Figure 6: Insurance customer journey attribute categories

Among consumers, Gen Z and Millennials had strong, high ratings across all 6 categories and all 30 attributes, reflecting their "digitally born" and "grown up digital" orientations. Accentuating the generational digital divide, ratings on only 9 of the 30 attributes were within 10% of each other across all generations, underscoring the widening shift from Insurance 1.0 to Digital Insurance 2.0.

There was a similar pattern among SMB owners, with Gen Z and Millennials standing out with the highest ratings across all company sizes. Interestingly, the largest companies had the highest ratings within each SMB owner generation segment.

Side-by-side comparisons within generations of consumers and SMB owners who have P&C products show interesting patterns, providing insight to help create new Digital Insurance 2.0 products or business models.

Side-by-side comparisons within generations of consumers and SMB owners who have P&C products show interesting patterns, providing insight to help create new Digital Insurance 2.0 products or business models. Gen Z and Millennials give higher ratings than other generations on **all** attributes (note: ratings are based on a 5-point scale where 1 meant "Definitely would not" consider using the attribute and 5 meant "Definitely would" consider it). But within the younger generations, consumers had slightly higher positive reactions to many of the attributes compared to SMB owners. Two interesting exceptions were in the Pricing and Social categories: While still low overall, SMB owners were more likely than consumers to consider insurance based on pricing using DNA or social media content/followers; SMB owners were also more interested in peer-to-peer types of arrangements – joining with similar businesses to get better rates, share costs/rebates and to network with each other – self-defined affinity groups (Figure 7).

Interestingly, both Gen X and Pre-Retirement Boomer SMB owners have slightly higher ratings than their consumer counterparts on most of the attributes. While these older generations grew up with traditional Insurance 1.0 products and business models, their status of being in an underserved or unserved market highlights the challenges and shortcomings of Insurance 1.0, and their stronger interest in simpler, better customer experience (Figures 8 and 9).

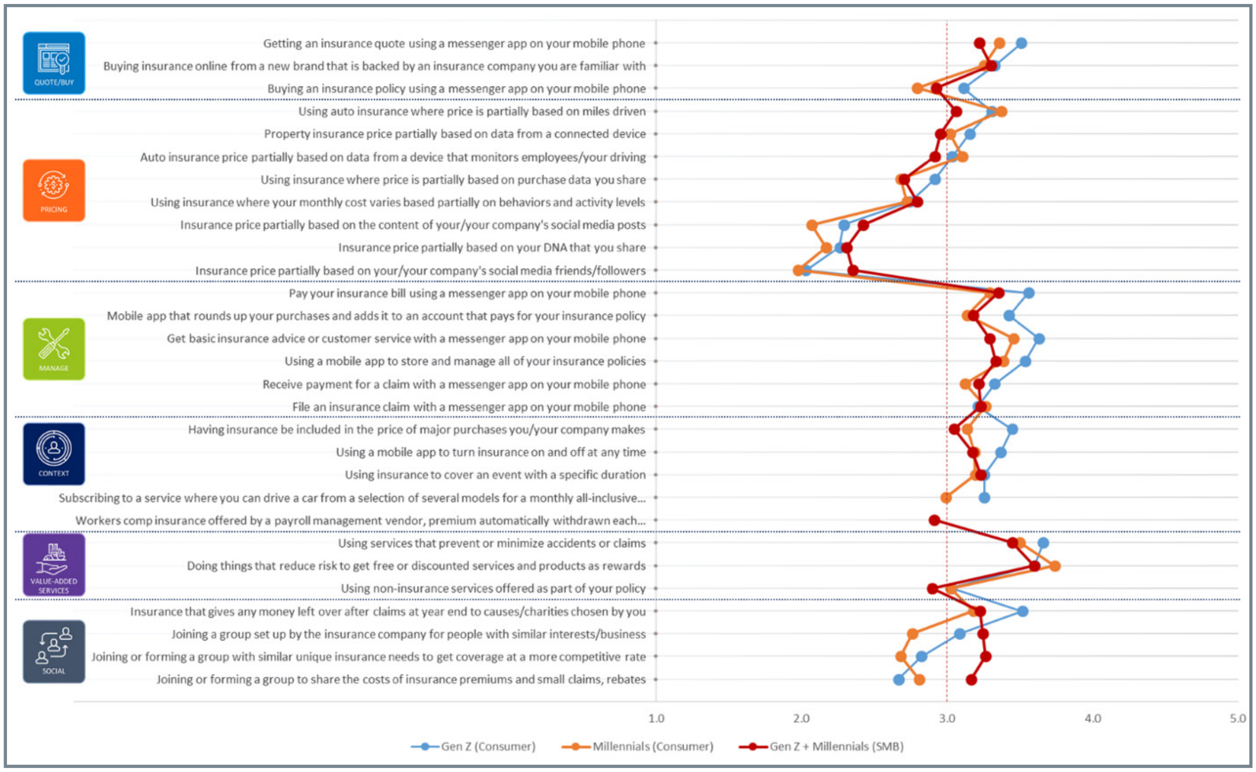


Figure 7: Likelihood to consider new insurance-related attributes among Gen Z & Millennial P&C policyholders

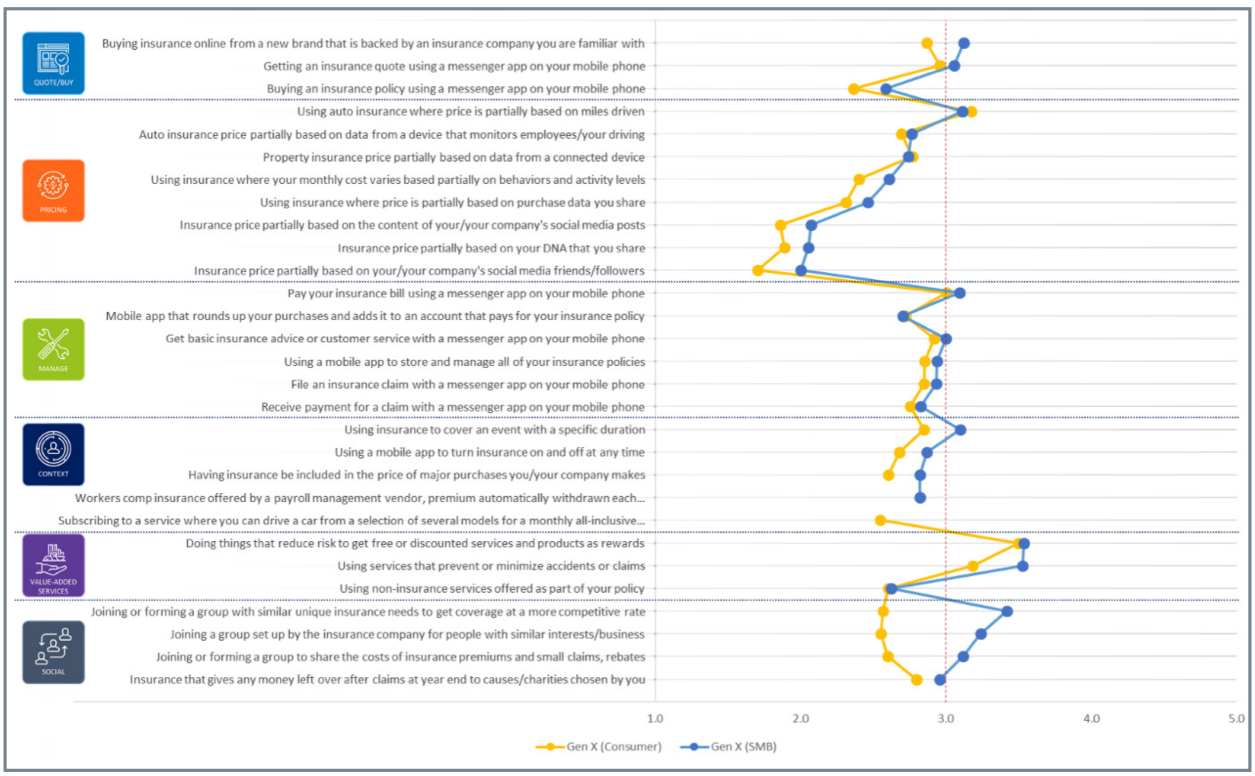


Figure 8: Likelihood to consider new insurance-related attributes among Gen X P&C policyholders

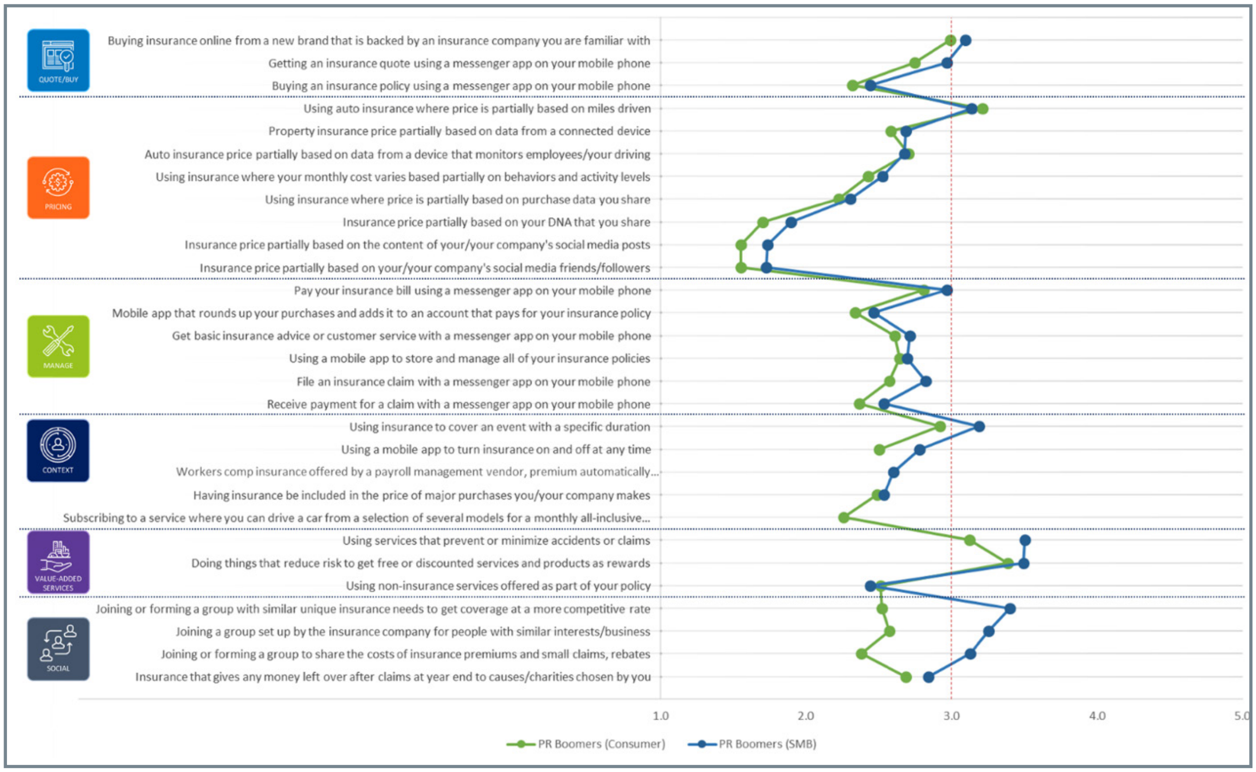


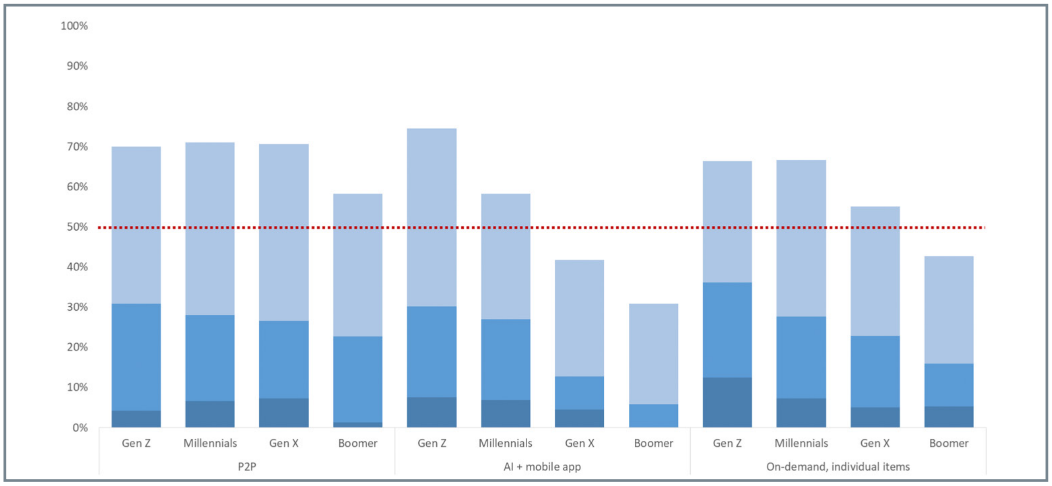
Figure 9: Likelihood to consider new insurance-related attributes among Pre-Retirement Boomer P&C policyholders

Overwhelmingly, Gen Z and Millennial consumers are highly interested in these new business models and offerings, with 36% - 55% positive reaction across all the business models. This increased to 70% - 90% when the "swing group" was added

The strong interest in these product attributes and categories highlights the growth potential for many of the new Digital Insurance 2.0 P&C business models that have launched in the market. But how will they influence customers to shift their policies from their existing insurers? In the same research, we described new Digital Insurance 2.0 business models to consumers and SMBs in terms that would allow us to understand their potential to not only buy, but to switch insurers. This allowed us to develop an area we call the "zone of change."

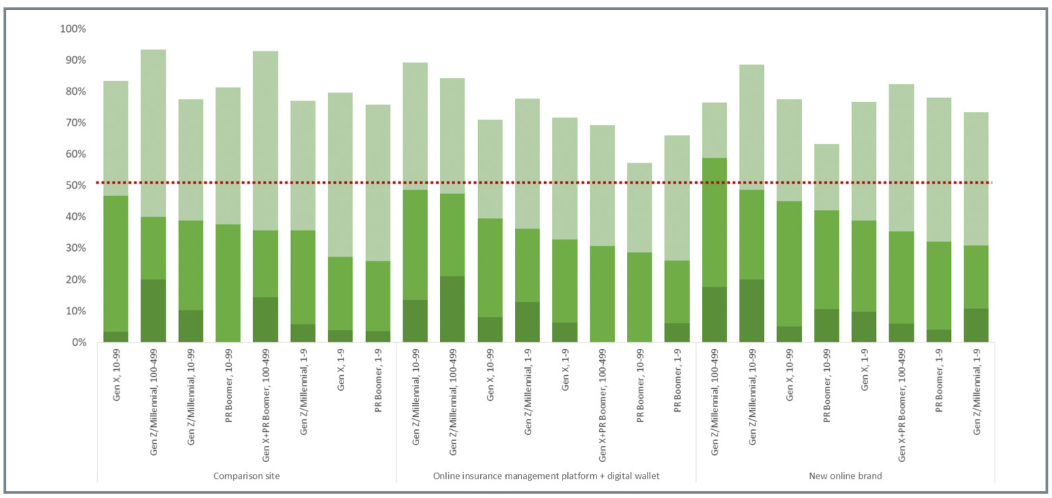
Overwhelmingly, Gen Z and Millennial consumers are highly interested in these new business models and offerings, with 36% - 55% positive reaction across all the business models. This increased to 70% - 90% when the "swing group" was added. While the likelihood to switch was not as high (with a 20% to nearly 40% positive reaction) when adding the swing groups, it rose substantially to 60% - 70%. This demonstrates an openness to buy or switch to these new products and models. Similar patterns emerged for SMB owners by generational group as well (see Figures 10 and 11).

Figure 10: Consumers' likelihood to consider buying this P&C offering the next time in the market for insurance



Consumer Concept	Description
P2P	With ABC Insurance, customers with the same type of auto or home/renter insurance form small groups. A part of your insurance premiums is paid into a cashback pool. If no claims are submitted, you and the members of your group can get up to 40% of your money back at the end of the year. Small claims are settled with the money in the pool while larger claims above the amount in by the pool are covered by the insurance company the group members purchased their policies from. As a result, you'll always enjoy full coverage and never pay more than you would have without ABC Company.
AI + mobile app	ABC Insurance uses a messaging app to craft a custom auto or home/renter policy that you can review and buy in about 90 seconds, all from your smartphone. They also pay most claims in 3 minutes or less, right from the app. They take a small flat fee to cover costs but the rest of what you pay is used to cover claims. If any extra money is left over at the end of the year, they donate it to a charity or cause that you chose when you first bought your policy.
On-demand, individual items	With ABC Insurance, you can protect just the things you want to cover, exactly when you want to – all from your phone. The entirely mobile experience lets you turn protection on and off for specific items at any time -- like a bike, camera or computer -- with a few clicks. Send text messages to review claims, and collect valuable data about your possessions to know how much they are worth. Protect the things you value with on-demand insurance from ABC.

Figure 11: SMBs' likelihood to consider buying this P&C offering the next time in the market for insurance



SMB Concept	Description
Comparison site	With ABC Company, you can fill out one online application and get insurance quotes for your business from multiple top carriers in 15 minutes. You compare them, choose the one you like, and work with one of our insurance experts to start your coverage. As long as you have a policy with ABC Company, you have access to a dedicated account manager who will answer your questions and help you out whenever you need it.
Online insurance management platform + digital wallet	ABC Company has an online platform that offers insurance management services to small-medium businesses. They offer free quotes, free consultations, and a free intelligent assessment of your coverage needs. You can manage all your policies and rates with an online digital wallet, which also lets you get quotes, request and manage certificates from third parties, manage claims and receipts, send proof of insurance, and access insurance experts when you need advice.
New online brand	Small business owners can quickly and easily buy affordable insurance directly through the internet from ABC Company, a financially strong insurance company they can trust. You can have your policy in minutes with up to 20% in savings. They offer the ability to generate your own Certificates of Insurance and other documents and a range of payment options. You can get advice and answers to your questions through a secure online portal or over the phone from their customer service team.

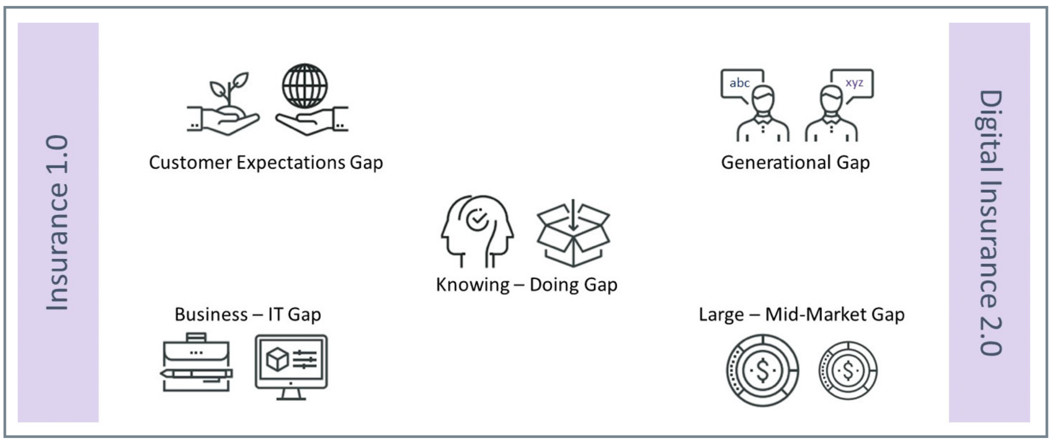
The increasing use of digital activities and trends, coupled with strong interest in new digital insurance capabilities, particularly for Gen Z and Millennial consumers and SMB owners, accentuates the rapidly increasing interest in new products and services.

The increasing use of digital activities and trends, coupled with strong interest in new digital insurance capabilities, particularly for Gen Z and Millennial consumers and SMB owners, accentuates the rapidly increasing interest in new products and services. The openness to buy or switch will hasten the decline of Insurance 1.0 and the shift toward Digital Insurance 2.0, giving traditional insurers who are not adapting quickly, increased concern on declining relevance. Whether it is due to ever-growing expectations or because of the need for innovative products that align to their risk profiles, Insurance 1.0 business models simply do not adequately keep up. This places them at significant risk for survival, particularly as Gen Z and Millennials become the dominant group of insurance buyers.

Business Strategy/Operations: Gaps between insurers' responses to the shift to Digital Insurance 2.0

Most insurers are keenly aware of the internal and external trends as well as rising customer expectations that are impacting insurance. Unfortunately, the extent of their response to these areas is significantly lagging, creating a Knowing – Doing gap, which was reconfirmed in Majesco's 2018 Strategic Priorities research. We also found unexpected additional gaps, including the Business-IT gap, Large-Mid-market Gap, and Digital Strategy Gap. These gaps are accelerating and widening the divide between Insurance 1.0 and Digital Insurance 2.0, which will increase the difficulty for incumbent insurers to recover lost ground.

Figure 12: Gaps accelerating the divide between Insurance 1.0 and Digital Insurance 2.0



The lack of any movement in planning and doing raises concerns about insurers' ability to effectively navigate a widening gap. This continuing trend indicates the industry has increasing and considerable work to do to eliminate this gap during a time of rapid change.

Knowing-Doing Gap

The Knowing-Doing gap links insurers' awareness or knowing of the internal and external forces of change, identified in Majesco's *Future Trends 2018: Catalyzing the Shift to Digital Insurance 2.0* report, with the reality of how they are responding, both in terms of planning as well as doing. After analysis, insurers' responses were categorized as "Hits", "Borderline" or "Misses" to signify which of them were strengths and which were weaknesses or potential blind spots.

From 2017 to 2018, there was more *knowing*, in that there were no "misses," highlighting a deepening understanding of the change and disruption in the industry. However, both planning and doing remained relatively unchanged in the intensity and focus, with only about half of the areas in some form of planning and about a quarter in doing. Of particular concern, many of the emerging technologies underpinning the industry change lacked any activity. The lack of any movement in planning and doing raises concerns about insurers' ability to effectively navigate a widening gap. This continuing trend indicates the industry has increasing and considerable work to do to eliminate this gap during a time of rapid change, as we move from Insurance 1.0 to Digital Insurance 2.0. The days of being a fast follower are over, given the pace of change, highlighting the necessity for insurers to more actively plan and do, even in a test and learn environment.

In response to the Business – IT gap and the need for business to aggressively respond to the shifting marketplace, a shift in decision making with regard to systems and technologies is moving to the Business, particularly as business solutions move to the cloud.

IT and Business Gap

For decades, the insurance industry talked and focused on the business vs. IT gap to ensure that technology and priorities were aligned with the business. The gap seemed to decrease as we modernized our legacy systems that enabled the business to quickly make changes without depending on IT. Surprisingly, the gap is back and growing, driven by the need to rapidly respond to market changes, disruptions and the growing number of market opportunities.

Both Business and IT share similar levels of awareness across internal and external trends, but business leaders are more concerned than IT about the growing array of business and technology trends that are redefining the industry. Business leaders are placing a higher priority (78%) on planning around strategic initiatives focused on growth and innovation, including: *Developing new markets*, *Product innovation*, *Channel expansion*, *Accessing new capital markets* and *Integrating emerging technologies into new products, services or processes* — all areas that underpin Digital Insurance 2.0. Further reflecting the size and magnitude of the gap between business and IT, is the fact that Business leaders have a 100% higher response to all 11 business trends. In stark contrast, IT is more concerned about the budget and security. They are focused on the challenge of keeping the existing business running using a fixed number of resources, while not exceeding budget parameters.

In response to the Business – IT gap and the need for business to aggressively respond to the shifting marketplace, a shift in decision making with regard to systems and technologies is moving to the Business, particularly as business solutions move to the cloud. IT still has a critical role, but must rapidly shift to partnering and enabling the business to respond to these trends in innovative ways.

The Business – IT gap highlights the impact of current trends on the roles within insurers as we shift to digital organizations. The existing business model, systems and operations must continue to be modernized and optimized, given that existing customers expect some digital engagement. Yet at the same time, insurers must find resources to focus on the business of the future, Digital Insurance 2.0. To accomplish this, Business and IT leadership must agree on how they will transform their organizations, while ensuring today's business is run smoothly as they are building the future. To shift to Digital Insurance 2.0, Business and IT leaders must work together and begin to differentiate the business through test and learn and rapid delivery of innovative business solutions, leveraging both internal, partner and ecosystem expertise, relationships and technologies.

This disparity between large and mid-market insurers emphasizes the risk for mid-market insurers. The gap in priority will likely intensify competition, reduce customer retention, and limit growth and relevance in a changing marketplace.

Large and Mid-Market Insurance Gap

We often look at large insurance companies (over $1 billion in DWP) as having more complexity, making it more challenging to change, yet having the resources, both people and funding, to act on opportunities. Conversely, smaller insurance companies (under $1 billion in DWP) are perceived as nimbler and able to act on opportunities, yet they often do not have the resources to take advantage of opportunities. Our analysis of the knowing, planning and doing both confirms and challenges some of these assumptions.

From a Knowing view, 71% of the internal factors in our research received higher levels of concern from larger insurers, reflecting their complexity. In particular, *Aligning IT and business strategies* stands out. The contrast is even greater with regard to external factors, with 88% ranked higher by larger insurers. This disparity between large and mid-market insurers emphasizes the risk for mid-market insurers. The gap in priority will likely intensify competition, reduce customer retention, and limit growth and relevance in a changing marketplace.

The disparity and extent of the gap is illuminated from a Doing view where there is a 100% gap between large vs. mid-market carriers in the business trends and a 91% gap in the technology trends. The results indicate that larger insurers are leveraging their strength in resources, both people and funding, to act on the market changes. Conversely, mid-market insurance companies are not acting on their strength of nimbleness to counter their limited resources. As such, they need to stake out the priority areas and find ways to allocate resources to them. Not doing so is not an option.

Why is a strategic focus critical? With the level of change and disruption, history shows that a large percentage of companies will not survive. Cisco's CEO John Chambers noted in a 2015 speech that digital technology could render 40% of companies in the world today irrelevant in 10 years.[12]

Opportunities with Digital Insurance 2.0

Together, the market / customer and business strategy / operation gaps are creating hurdles for many insurers. Opportunities abound, however, for those who embrace the digital age shift in this race to the future of Digital Insurance 2.0.

Together, the market / customer and business strategy / operation gaps are creating hurdles for many insurers. Opportunities abound, however, for those who embrace the digital age shift in this race to the future of Digital Insurance 2.0. How companies respond will determine whether they are architects or victims of the future, because innovative incumbents and new entrants are challenging traditional insurers, defining and creating the digital age of insurance.

Each day we see the early signs of Digital Insurance 2.0 emerge, poised to disrupt the insurance industry's traditional Insurance 1.0 business model. Survival and winning will require architecting a new playbook for Digital Insurance 2.0.

We are in uncharted waters. The rise of Digital Insurance 2.0 is simultaneously one of the greatest opportunities, challenges and threats to insurers operating in Insurance 1.0. Digital Insurance 2.0 requires an outside-in (understanding the external and internal factors) approach that focuses on the strategic initiatives crucial to its success. It requires insurers to be the architects of the future, not its victims, as R. Buckminster Fuller said. This requires architecting a new business model that reaches new buyers, and finds greater opportunities to create value and growth.

Insurers must become ***digital insurgents, with a Digital Insurance 2.0 business model*** that becomes the winning strategy in the new game of insurance. To do so, they need a framework to address the gaps and build a new business model for Digital Insurance 2.0.

Frameworks for analyzing Insurance 1.0 vs. Digital Insurance 2.0

Two frameworks can help insurers align to Digital Insurance 2.0:

- The Fogg Behavior model, which helps understand the difficulties customers have with Insurance 1.0 and how new business models are fixing them,
- A new model, Digital Insurance 2.0 Product Framework, that categorizes customer-facing components of new business products and models to facilitate comparisons.

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The combination of these models provides a structure to understand, plan and implement innovative new options to begin a path to Digital insurance 2.0.

Fogg Behavior Model

In the Future Trends 2018 report, we illustrated the complexity of insurance based on the low levels of customer engagement that contribute to acquisition and retention challenges for Insurance 1.0 carriers. We used the Fogg Behavior Model,[13] developed by BJ Fogg, the Director of the Stanford Behavior Design Lab, to break down the drivers of decisions and behaviors to understand the weaknesses of Insurance 1.0 and how Digital Insurance 2.0 business models are exploiting them. The model translates behavior into a simple "formula" consisting of just three components: Motivation, Ability and Triggers, all of which must occur simultaneously for a behavior to occur.

The model highlights an inverse relationship between motivation and ability. If someone has low ability for a behavior, a high level of motivation is needed (plus a trigger) to make it happen. Similarly, if someone has low motivation for a behavior, whoever wants them to do it must make it extremely easy (and provide the right trigger). Using this model as a lens into insurance decisions, we clearly see many weaknesses within Insurance 1.0 models that Digital Insurance 2.0 models exploit.

Fogg emphasizes the importance of task simplicity to influence people's ability to perform a behavior. Training people is the second option, but is less preferred because it takes time and effort, and many people (especially your customers) really don't want to learn your company's processes.

Further analysis of these Insurance 1.0 models based on the motivation, ability and trigger attributes provides added insight.

Motivation: Dr. Jeffery Nevid, Professor of Psychology at St. John's University in New York, states that "Motivation refers to the 'whys' of behavior – factors that activate, direct and sustain goal-directed behavior."[14]

Fogg uses 3 "core motivators" in his model, each with a positive and negative side:

- Sensation: Pleasure, Pain
- Anticipation: Hope, Fear
- Belonging: Social Rejection, Social Acceptance.

Ability: While the meaning of this term is rather obvious, to ensure consistency here is the definition from Dictionary.com:

1.) Power or capacity to do or act physically, mentally, legally, morally, financially, etc.
2.) Competence in an activity or occupation because of one's skill, training, or other qualification: *the ability to sing well*
3.) Abilities, talents; special skills or aptitudes: *Composing music is beyond his abilities.*

Fogg emphasizes the importance of task *simplicity* to influence people's ability to perform a behavior. Training people is the second option, but is less preferred because it takes time and effort, and many people (especially your customers) really don't want to learn your company's processes. Fogg's training view aligns well with the concept of System 1 and System 2 thinking described in the book, *Thinking, Fast and Slow,* by Daniel Kahneman, Nobel Prize winner in economic science.[15] Training people on something new and complex requires them to use System 2 thinking, which is deliberate, slower and requires significant cognitive effort – something most people prefer to minimize and reserve for other purposes more important or interesting to them.

This is the operational dynamic of Insurance 1.0: customers are not interested in nor engaged with insurance (motivation), and they view it as "not easy to do business with" (ability).

Triggers: These can be deliberate cues, prompts or requests for a behavior, like an advertisement, an email or a call. They can also be more serendipitous, like a life event or an accident, or even noticing a stack of dirty dishes in your kitchen sink (prompting you to put them in the dishwasher).

Unfortunately for Insurance 1.0, effective deliberate triggers for low motivation and low ability scenarios do not exist. This is the operational dynamic of Insurance 1.0: customers are not interested in nor engaged with insurance (motivation), and they view it as "not easy to do business with" (ability).This makes it very difficult to encourage customers to engage in desired behaviors, like purchasing additional policies, signing up for services (e.g. electronic billing), using the company's app, not submitting fraudulent claims, or getting satisfied customers to switch from another carrier.

In reality, many triggers are likely of the serendipitous type, caused by an event which impacts the customer. The commonly cited reasons for shopping and switching are examples of these triggers:

- Trigger: Price increase or poor service
- Motivation: High. Sensation: Pain (anger, confusion, perceived unfairness)
- Ability: Low. Our research shows that researching and buying insurance is not easy, but motivation may be strong enough to overcome the lack of ability, especially if competitors make the experience extremely simple, a key focus for Digital Insurance 2.0 players.

- Trigger: Life event (marriage, birth of a child, new home, starting a new business)
- Motivation: High. Anticipation: Fear (realization of what you could lose and desire to protect it)
- Ability: Low. Again, as our research shows, insurance researching and buying is not easy, especially for those new to insurance (i.e. Millennials, Gen Z).

In stark contrast, Digital Insurance 2.0 companies are using data, technology, platforms and processes to beat Insurance 1.0 models in all three components of the Fogg Behavior Model including:

Digital Insurance 2.0 dramatically changes how all of these value chain components are done, with a major emphasis on simplifying, streamlining and redefining the customer experience by using new data sources and technology capabilities. At the same time, Digital Insurance 2.0 also encompasses changes in the very nature of the insurance product itself, from the perspective of the customer.

Triggers: Using new, real-time data sources, including location, activity and condition data from connected devices, combined with improving analytics and AI/cognitive computing, insurers can predict and respond in real-time to motivate people to act. In platform-based ecosystems, the trigger for insurance can even be embedded or "invisible" as part of another transaction or activity like renting an apartment or an Uber driver picking up a passenger.

Motivation: The data and analytics-enabled triggers can "catch" customers before, during or after an event whose immediacy and context should result in higher motivation to act. Conversely, triggers may also allow customers to not have to engage in an insurance-related behavior at all, as in the case of a platform-based ecosystem.

Ability: AI-driven apps radically simplify and speed up insurance transactions like researching and buying insurance or filing claims. Platform-based ecosystems organize all relevant components of a customer's journey into one place, including insurance, greatly simplifying the process by removing silos and embedding and streamlining tasks.

Digital Insurance 2.0 players, many from InsurTech, are effectively using these three attributes in their business models.

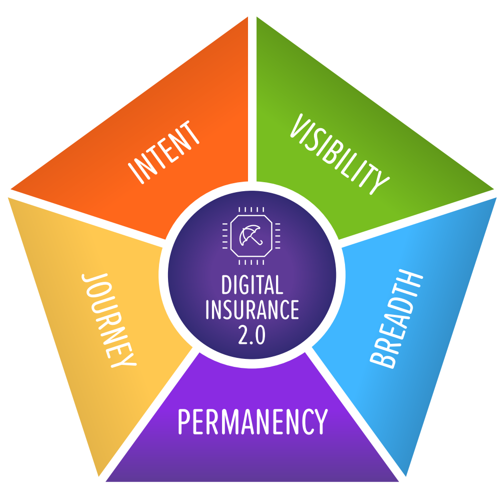
Digital Insurance 2.0 Product Framework

In Insurance 1.0, the insurance product is quoted, rated, underwritten, bought, paid for, and used (i.e. claims are filed). Digital Insurance 2.0 dramatically changes how all of these value chain components are done, with a major emphasis on simplifying, streamlining and redefining the customer experience by using new data sources and technology capabilities.

At the same time, Digital Insurance 2.0 also encompasses changes in the very nature of the insurance product itself, from the perspective of the customer. There are five dimensions based on the trends uncovered in our research that make up the Digital Insurance 2.0 Product Framework:

1. **Intent** of the product: Indemnification versus risk prevention, avoidance and reduction.
2. **Visibility** and accessibility of insurance: A distinct, stand-alone product versus "invisible" or embedded product within other products, services or an ecosystem.
3. **Breadth**: Broad coverage of multiple risks or items vs. specific coverage of a risk, item or event.
4. **Permanency**: Continuous coverage for a contractual period of time vs. variable, episodic periods based on demand or need.
5. **Journey**: Focus on customer journey, needs and expectations rather than the internal operational silos across product, function, service and organization

Figure 13: Digital Insurance 2.0 Product Framework



These models help highlight the fundamental differences and assumptions between Insurance 1.0 and Digital Insurance 2.0, leveraging people, market boundaries and technology, to trigger, motivate and make it easy for customers to take action in buying insurance.

Today's business environment is more complex and dynamic in a world of constant change. Business strategies based on a multi-year plan revisited annually are no longer effective. The marketplace is moving too fast.

P&C Playbooks and Plays

Just like in the realm of sports, the business "game" is dramatically changing, driven by new customer expectations, new innovations and new competition. Today's business environment is more complex and dynamic in a world of constant change. Business strategies based on a multi-year plan revisited annually are no longer effective. The marketplace is moving too fast. Customers' expectations are being set outside the insurance industry. Competitors are new and innovative. Market boundaries are radically shifting. And all of this is changing how insurance is bought … not sold.

To effectively be in the "game", insurers need to rethink their playbooks, adapting plays quickly to take advantage of market shifts and opportunities. They need to operate in a test and learn environment that focuses on speed to value – speed to implementation, speed to market and speed to revenue – that matches the pace of today's market dynamics and enables growth and innovation.

To help insurers jumpstart their new playbooks, we have leveraged our key research findings highlighted above, assessed the new business models and products that have entered the market via InsurTech, and looked at them against the two frameworks to provide guidance in developing their unique playbooks. We categorized these new business models into 10 segments:

1. Commercial Lines – General
2. Specialty Lines
3. Gig/Sharing Economy
4. Personal Lines – Auto
5. Personal Lines – Home / Renters
6. On Demand
7. Compare / Marketplace Sites
8. Social-Based
9. General Insurance (auto, property, other)
10. Embedded / Ecosystems

To effectively be in the "game", insurers need to rethink their playbooks, adapting plays quickly to take advantage of market shifts and opportunities.

Diagnosing the playbooks and plays of new P&C entrants

There are hundreds of new P&C business models within these categories, each with interesting characteristics that can provide ideas for developing additional unique P&C "plays." We selected five examples to analyze using the two frameworks described above.

neos	Personal Lines - Home / Renters: NEOS
Founded / Location	2006 / London
Description	Neos is an MGA that combines app-controlled smart technology and 24/7 assistance with comprehensive home insurance. Buildings, contents and personal belongings coverage is underwritten by Great Lakes Insurance SE; home emergency and legal expenses by AmTrust Europe Limited.
Key features, differentiators	Neos focuses on simplifying traditional insurance processes while repositioning it as an "everyday lifestyle product" to create more frequent, positive customer engagement. Matt Poll, founder and CEO is quoted on the website, "By focusing on prevention, Neos helps homeowners and makes their homes safer." Leveraging data from public sources and property management partner Zoopla, Neos provides a complete insurance quote using only the customer's address and postcode as input. They offer 3 levels of insurance coverage, devices and services packages. "Best" includes 11 connected devices of various types plus 24/7 home monitoring. "Better" includes 8 devices and home monitoring can be purchased as an add-on. "Good" includes one HD security camera, but other options can be purchased as add-ons. All devices and insurance can be managed with the Neos app.
Business model characteristics	
Intent	Prevention and indemnification
Visibility	Insurance is a distinct/visible product, but it is a component of the total home protection package. The company plans to be on price comparison sites and to be embedded and offered through property management site Zoopla, one of its partners and investors. It is also being offered as a white label product through other carriers like Aviva.
Breadth	Neos offers broad coverage for buildings, contents/personal belonging or both combined across three pricing tiers for different levels of coverage and different types of customers.
Permanency	Insurance coverage is annual term-based, inclusive of the hardware and monitoring service, payable monthly or all at once.
Journey	Neos' offering extends beyond the traditional borders of insurance by adding a well-integrated, app-managed prevention and monitoring component. They are exploring additional revenue opportunities in the recovery phase of the customer journey, aiming to connect customers with repair services via its platform.
Business model impacts on customer behaviors	
Ability	There is a strong emphasis on simplification of the quoting process via extensive use of pre-fill data sources. The app provides an easy way to monitor the home via connected devices and to be alerted when the customer's attention is required.
Motivation	Like most other insurance products, Neos' offering appeals to the *anticipation/fear* core motivator and its addition of prevention via smart devices activates this motivation on a continuing basis, not just at the initial purchase of the product like most traditional insurance. The ongoing real-time feedback and control through the Neos app delivers more tangible, engaging benefits than the traditional insurance product.
Triggers	The Neos app alerts customers to potentially problematic events, such as a leaking sink or a door left open, which provides a highly relevant and motivating prompt to engage in preventative behaviors, which will prevent or mitigate losses – and costs.

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BOUGHTBYMANY	**Social-Based: Bought by Many**
Founded / Location	2013 / London
Description	Bought by Many is a broker providing a service that uses internet search data and social platforms to create and connect groups of people with similar insurance needs, then negotiates on their behalf with insurance companies to obtain lower rates, discounts and other benefits.
Key features, differentiators	In 2017, they introduced their own travel insurance (backed by Munich Re) for people with medical conditions and pet insurance with a claims process that requires no forms to complete. As of this writing, the website reported there were 485,719 members in 315 groups across 8 categories. They highlight an award received from Fairer Finance for having easy-to-understand policy documents.
Business model characteristics	
Intent	Traditional indemnification as well as niche products
Visibility	Bought by Many offers distinct insurance products from multiple providers as well as their own products that are explicitly purchased and accessed by the customer.
Breadth	The policies offered cover a range of exposures, from niche (pet, travel, phones/gadgets) to broad (business & professional insurance)
Permanency	Traditional term contracts specific to the insurance companies selected by group members.
Journey	Insurance-product focused, no additional journey-related non-insurance products or services. Once a member purchases a policy from a company (outside of Bought by Many's own pet or travel insurance), the customer relationship shifts to that company.
Business model impacts on customer behaviors	
Ability	By creating groups of people with similar insurance needs and negotiating on their behalf for insurance deals and discounts (like forming an affinity group), Bought by Many mitigates the complexity of the shopping process and the uncertainty about whether one is getting the best rate.
Motivation	The company's offering appeals to the core motivators of *anticipation/fear* and *belonging/social acceptance*. The first motivator applies to pet owners with emotional attachment to their animals and people with unique insurance needs who have had difficulty finding affordable coverage. Explicit emphasis of its many members and groups applies to the second motivator, creating a sense of community and validation; a feeling of "we're in this together."
Triggers	Triggers are most likely to come from the customer, people searching for coverage and/or better rates for unique needs. However, Bought by Many also uses social platforms as triggers to connect people with similar insurance needs in groups, and they say that "Most members come to us from posts they have seen on Facebook." A look at their Facebook and Twitter posts clearly demonstrates they are using emotional triggers to appeal to dog and cat owners, one of their primary targets.

Sources:

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NEXT INSURANCE	Commercial Lines - General: Next Insurance
Founded / Location	2016 / Palo Alto, CA
Description	MGA focused on developing and offering digitally-delivered and managed coverage for the unique needs of specific small business verticals. Current offerings for sports instructors/trainers, photographers, contractors, in-home daycare providers and cleaning services.
Key features, differentiators	They aim to take advantage of the difficulty for many traditional insurers to achieve expertise in more than a handful of specific small business verticals, which can cause many markets to be overlooked. CEO Guy Goldstein claims, "What we can do with our technology, data, and AI is gain a deep knowledge of each profession in order to tailor the right products to a business." The company uses technology and data to increase transparency, simplicity and affordability of the commercial insurance. Customers can buy a policy in just a few minutes 24/7 completely online, including a Facebook Messenger chatbot option. The process uses AI to tailor a policy to any specific business. Customers have access to an online portal to access and share free, unlimited Certificates of Insurance with Additional Insured, update payment methods, or cancel coverage.
Business model characteristics	
Intent	Traditional indemnification
Visibility	Next Insurance's offering is a distinct product that is explicitly purchased and accessed by the customer via different digital devices.
Breadth	General and professional liability coverage tailored to the specific, unique needs of different professions/businesses.
Permanency	Traditional annual term contracts with monthly payment option.
Journey	Insurance-product focused, no additional journey-related non-insurance products or services.
Business model impacts on customer behaviors	
Ability	The company's focus is on simplification of traditional insurance processes by leveraging digital technology and data. The quote and application/purchase processes and obtaining certificates of insurance are rapid and digitally enabled.
Motivation	Motivation is aided by the company's emphasis on low prices and customized, extensively-researched coverage for the unique needs of specific professions. The latter should appeal to the *anticipation* (reduced fear of buying a policy that may not be a good fit) and *belonging* (using the same product as similar small business owners) motivators.
Triggers	Triggers are most likely to come from the customer side, such as the need to get coverage and/or certificate of insurance quickly, with the urgency providing the motivation. Next Insurance's simplified processes increase the likelihood of the customer having a successful and satisfying experience in accomplishing their goals.

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Slice	Gig/Sharing Economy: Slice
Founded / Location	2015 / New York, NY
Description	Slice is an MGA that offers property and auto insurance for homeshare and rideshare participants in the Gig/Sharing Economy. It created the digital platform its customers use for purchasing and managing coverage and submitting claims, while coverage is written through a partnership with Munich Re. Slice offers its cloud-based insurance platform to other insurance companies and startups as an option for launching new insurance products.
Key features, differentiators	Customers can quote, buy and file claims in minutes via the Slice website or app. Coverage can be turned on and off on-demand through the app for any time interval needed by the customer.
Business model characteristics	
Intent	Traditional indemnification based on demand or use
Visibility	Slice's offering is a distinct product that is explicitly purchased and accessed by the customer.
Breadth	While the coverages offered by Slice are similar to those of traditional 6 and 12-month insurance policies, the ability to limit coverage to specific events for irregular periods of time makes this offering unique.
Permanency	Coverage is triggered on and off by the customer via the Slice app.
Journey	Insurance-product focused, no additional journey-related non-insurance products or services.
Business model impacts on customer behaviors	
Ability	Slice's focus is on simplification through digitally-enabled purchase and claims processes with no forms or paperwork and an intuitive app for turning coverage on and off.
Motivation	Slice's offerings appeal to the *anticipation/fear* core motivator among Gig and Sharing Economy participants, whose protection needs are not fully met by most traditional products or the sharing economy platforms they work through. The customer's ability to actively turn this coverage on and off allows Slice to extend the activation of this motivation beyond the initial purchase, giving it an advantage over traditional term-based insurance.
Triggers	Triggers to activate and terminate coverage periods originate from the customer, based on their driveshare/homeshare activities. The digital platform and app make it very easy for the customer to act on these triggers.

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众安保险 ZhongAn Insurance	**Embedded / Ecosystems: ZhongAn**
Founded / Location	2013 / Shanghai, China
Description	Ping An, Tencent and Alibaba joined forces in 2013 to launch ZhongAn, China's first digital insurer that sells all its products and handles all claims online. ZhongAn underwrote over 630 million insurance policies and serviced 150 million clients in its first year of operation.
Key features, differentiators	ZhongAn partners with China's major internet companies to distribute a variety of insurance products including: shipping return insurance through Alibaba's shopping platform Taobao, for both merchants and consumers (in November 2017, Alibaba achieved a record breaking $25B Singles' Day sale that included ZhongAn's embedded shipping return insurance); flight delay insurance through Ctrip, China's largest online travel group; "cracked screen" insurance for mobile phones purchased online from Chinese phone maker Xiaomi. In 2015 it launched Bao Biao car insurance with Ping An that leverages an ecosystem of partners across the car value chain, including "carmakers, dealers, after-sales service companies, designated car driver service providers, and financial institutions that offer car loans." In total, it offers more than 240 filed products across several categories, including health, accident, liability, bond, credit, auto and lifestyle consumption. The company uses artificial intelligence to improve pricing, underwriting, fraud detection and customer service. The company reported that 97% of its customer inquiries are handled by its chat bot communication tool without any involvement of humans.
Business model characteristics	
Intent	Traditional indemnification for niche and traditional needs
Visibility	Their offerings are distinct insurance products that are explicitly purchased by the customer, but they are placed/embedded within other purchase journeys.
Breadth	ZhongAn offers products for a broad spectrum of risks, from single items (shipping return, mobile phones) and events (e.g. travel) to traditional coverage (e.g. automobile).
Permanency	Insurance products cover specific terms that vary depending on the item or period of time being insured.
Journey	While ZhongAn focuses only on insurance products, its partnerships with other internet companies and participation in the car value chain ecosystem has the result of placing its products squarely within the customer's journey.
Business model impacts on customer behaviors	
Ability	Data and AI-driven digital interactions simplify and streamline transactions, and making the insurance purchase a complementary part of the purchase process of other products makes it easy for customers to make the decision to buy.
Motivation	Appeals to *anticipation/fear* core motivator by providing immediate peace of mind while the customer is purchasing other products. Also likely "piggybacks" on the *sensation/pleasure* motivation derived from some "enjoyable" purchases like gifts or a new car.
Triggers	ZhongAn makes excellent use of triggers by placing its products in the purchase journeys of customers. They are prompted to buy insurance at highly relevant moments, where motivation to protect purchases is high.

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Using these frameworks to break down these new business models into their component parts enables others to see how these innovative companies are changing the game to create more engagement, tailored solutions and perceived value that is desired by a new generation of insurance customers.

Using these frameworks to break down these new business models into their component parts enables others to see how these innovative companies are changing the game to create more engagement, tailored solutions and perceived value that is desired by a new generation of insurance customers. Each innovative new company can be analyzed with the frameworks, but based on those we have evaluated, it's clear there is great effort, design and focus on using data and technology to ***simplify*** insurance – appealing to the ***abilit****y* component of the behavior formula. Some are also actively venturing out to address and improve the ***motivation*** and ***trigger*** components. Those that are able to find success in all three of these areas will likely be those that truly transform insurance, moving it from being sold to being bought.

As your organization develops your own new products and business models, or evaluates new competitor options, we encourage you to use these frameworks to see how your "plays" stack up against the competition. Furthermore, as you develop your new products, we encourage you to consider the 30 attributes across the 6 categories to spark your innovation. What combination of attributes will form the next innovative product to capture unmet market needs? What new attributes can you create to meet and engage customers? Most importantly, will these new products and business models be simple, motivating and engaging for your target customers?

Putting the Plays into Action

The digital era shift is realigning fundamental elements of business that require major adjustments from insurers in order for them to survive and thrive. At no time in the history of insurance can we find as many game-changing events ***and*** a rapid pace of ongoing advancement occurring at the same time, creating change and disruption. At the forefront of this change is the increased momentum of InsurTech, and the Greenfields and startups within, creating innovative products and business models that address the gaps left by incumbent insurers.

How should incumbent insurers respond? Where should new startups and greenfields concepts start?

The best place to start may not be a plan, but a new playbook, rather, for the digital age. A playbook is better than a simple plan. A plan is a roadmap to a desired future based on current conditions and the steps needed to go from the current state to a future state. A playbook acknowledges that there are many possible futures and that businesses need to be built in a way that will adapt and thrive in any of them.

The best place to start may not be a plan, but a new playbook, rather, for the digital age. A playbook acknowledges that there are many possible futures and that businesses need to be built in a way that will adapt and thrive in any of them.

The goal of the playbook is to create a game full of opportunities that lead to a win. By mixing and matching plays to meet each unique opportunity with the right coaches, partners and leaders, the playbook provides value to create and embrace a test and learn environment, critical for successful innovation.

The time is ripe for creative business model, product and service development that shifts into the realms of Digital Insurance 2.0, by re-envisioning models within the context of digital possibilities and desired engagement. Companies can use the idea of a playbook to put together a package of viable "plays" that will help them on their shift from Insurance 1.0, into Digital Insurance 2.0 — the second wave of technological and business model advancement within insurance.

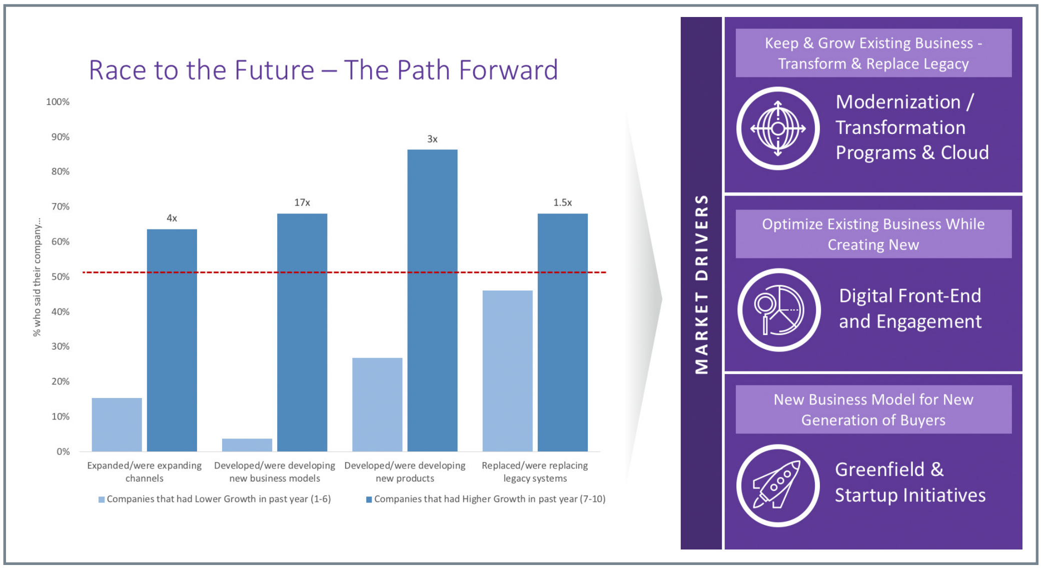
The race to the future is well on its way. InsurTech startups and greenfields have the luxury of focusing singularly on their Digital Insurance 2.0 business model for a new generation of buyers. Incumbent insurers do not. They must keep, grow and optimize the existing business … because it pays the bills and is funding the future.

However, they need to begin to build the new business model for a new generation of buyers, leveraging their own capital as the venture capital for their own startup or greenfield, as the new game plan with ideas for new plays. Ideas, however, rely upon capabilities. Insurance offerings are obviously constrained or enabled by the digital readiness of an insurance company. In other words, to make the playbook work, there must be a foundation in place. That foundation is a cloud business platform.

A cloud business platform opens doors to rapid idea testing and rollout. It allows new business models to be launched into the market in a fraction of the time and cost, leveraging integrated content, data sources, and innovative capabilities from InsurTech technology companies on a cloud platform that enables speed to value. It creates a greater amount of freedom in product development, easier business configuration, and exponentially better data gathering and digital service. Digital efforts provide speed to value, converting ideas to offerings while opportunities are fresh, including:

- **Speed to implementation** – get up and running in weeks or a few months versus years
- **Speed to market** – rapidly develop and launch new products or enter new states
- **Speed to revenue** – rapidly enable business growth with minimal upfront cost

Figure 15: Three paths to the future of insurance



A new generation of insurance buyers with new needs and expectations creates both a challenge and an opportunity that a platform-based Digital Insurance 2.0 business model can incubate, launch and grow. The time for plans, preparation, and execution is now — recognizing that the gap is widening and the timeframe to respond is closing.

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Insurance leaders should ask themselves: Do we have a strategy that considers transformation of both the legacy business and creation of a new business for the future? Who are our future customers and what will they demand? Who are our emerging new competitors? Where are we focusing our resources… on the business or on the infrastructure?

About the Authors

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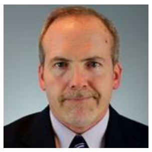

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