

# Disruptive Technologies and How Insurers Can Take Advantage

Banks, investment companies and other financial organisations are entering an unprecedented period of disruption caused by a confluence of business and technical trends. This period, marked by non-financial competitors pushing aggressively into the financial services space, is expected to last till around 2010, when the status quo will have been changed. Insurance companies are in a good business position to take advantage of this disruption, writes **Mr David Piesse**, Head of Insurance Practice, Sun Microsystems Worldwide.



**C**onfluence creates competition on all fronts as the traditional “silo” world is disrupted as more players go after the same customer. The challenge for the banks are the telecommunication companies (telcos) who are chasing the traditional payments space, and the challenge for the telcos is the media and entertainment business rich in content and offering much in white labelling and branding. Insurers can work with both telcos and banks as well as all the non-financial players to distribute and sell their products.

The overall trend is further enhanced by Gen Y (people born after 1976) who are assured of accepting the use of such technology in their businesses.

It has been said that “once an idea’s time has come, no force on earth is going to stop it”, and for the Web 2.0 generation, access is assured rapidly creating a new world. Business value-add will shift to services and content with user demand from anything and anywhere.

## New Players

Examples of new players come from:

- Internet brands such as Google, eBay, Yahoo, MySpace, Facebook;
- Device vendors such as Nokia;
- Consumer electronics such as Apple where iPhone will accelerate change;
- Payment collection such as PayPal;
- Other dominant companies with good brands entering the financial space.

## Definitions

Web 2.0 is defined as the next-generation Internet giving access to all and making mass market social finance and computing a reality.

We define SaaS (software as a service) as the technical catalyst that will interact with Web 2.0 by allowing business applications and solutions to be packaged as technology enablers in a way that is completely different from current on premise applications.

Content Distribution Networks is the need to get more content on an outreach basis to more people, and it is this shift that is driving the use of mobile technology to combine with SaaS and Web 2.0.

## Business Drivers

Current geo-political events show that social networks

and communities matter, and that the Internet has the capability of everyone and everything participating on the network. For example, banks are realising that they must be easy to interact with and provide services.

Since banks interact with large communities of customers, the implication of social computing has a profound effect on them and currently most have Web2.0/SaaS programs on their fringe strategies. With the Web as the natural point of interaction, coupled with the advent of mobile banking, it will become the ubiquitous financial channel. As bancassurance is one of the fastest-growing distribution trends in insurance, this gives insurers great leverage.

Banks are being driven to engage and participate with the customer, not at the transaction level, but around what the customer wants, when and how they want to do it. The customer is in the driving seat and is demanding a rich and easy user experience via content distribution networks and mobility. The use of electronic wallets for insurance quoting will put the insurance control in the hands of the customer and those that own the electronic wallet, eg supermarkets, will have the land grab opportunity.

It is not the use of technology alone as analysts predict 75% of financial institutions will use Web 2.0 by 2012. It is how the financial institutions change their business models to capitalise on the value and pervasiveness of social computing and resulting new behaviour of their customers. If they do not adapt, they risk being left behind. Those who understand are actively building on their Internet capability. Alternate insurance distribution business models can adapt easily here.

Web 2.0 is the architecture of participation and status quo changes are required by both IT vendors and financial institutions though new business models. Telcos will need to combine forces for mobility on the adage there are more winners in a flat world. This technology will be the basis for the commercial successful outcome of global microfinance/microinsurance strategies aimed at alleviation of poverty coupled with a new market opportunity for financial players.

## Impact on Insurance Industry

Insurers can leverage on white labelling, retail electronic wallets and brandassurance from the confluence and shifts over the next two years. Companies create wealth when they combine technology with new ways of doing business.

Insurers and banks are demanding more reusable business artifacts from IT vendors, ie packaged business services for rapid adoption as they are in strategic pursuit of growth markets where there is a strong community driven value creation in terms of speed to market, scalability and scope. Rural customers often distrust insurers, but trust brands such as supermarkets and telcos. Using SaaS, insurers can white label under customer trusted brands in order to get outreach and product distribution plus open up new cost savings by ease of outsource as managed services.

Non-financial players do not have the backoffice knowledge for insurance and, therefore, the business process outsource (BPO), call centre and distribution channel model fits very nicely as part of the post-disruption era. By creating reusable business artifacts in an icon and having a complete managed IT service (outsourced or insourced by a Web 2.0 data centre) behind the icon means very fast time to market for any product. This will also transform the way businesses pay for insurance and the entry cost will be lower on a pay as you go managed service.

Examples of such business insurance services are travel, bancassurance, microinsurance, takaful, pay-as-you-go motoring, mobile insurance or any insurance trend that, if made into a service, would provide immediate value add to the financial institution. This can also apply to core claims, policy administration and reinsurance services. In

addition, vendors can apply data warehousing and storage as services as well as the business applications. Market makers such as Sun Microsystems are already offering these services in established programs.

#### Post-Disruption and Conclusions

- In the next two years, there will be so much investment in the Web 2.0/SaaS space that this will cease to be a disruption and we will enter a more stable period that could last a decade where the a new status quo is born.
- IT vendors and market makers will substantially rebuild their core businesses on these disruptive business models and principles.
- Financial organisations which still see this as a disruption stand to lose market share and customer retention, and need to look at the new business rules of competition.
- Financial players should not adopt strategies to create equivalent social computing platforms of the non-financial players, but employ multichannel architecture integration in order to provide social banking and insurance for customers that demand it especially in the mobile phone space.
- Insurers should look at a guideline of 10% if their business coming from this area by 2012. ■