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INSURANCE: POST COVID-19 DIGITAL PARTNERSHIP MODELS

Leveraging reach to scale

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EXECUTIVE SUMMARY

With coronavirus (COVID-19), voice, data and digital platforms have seen increased usage as customers rush towards them to manage their needs. Insurers have a unique opportunity to capitalize on this shift by developing new business models with platform providers, expanding their reach and delivering value to the platform customer.

Amongst partner candidates for insurers, telcos have always been a valuable option due to their large captive user base, access to customer data lakes, analytics capabilities, and digital assets with an ability to integrate customer journeys with insurance offers. From the perspective of telcos, a partnership with insurance players helps create a healthy revenue stream and improve customer outcomes with insurance offerings.

With both insurers and telcos under immense pressure to reinvent their digital businesses, we envisage these businesses will come together with new partnership models. The recipe for a successful insurer-telco partnership involves two key ingredients: product propositions, and operating model.

Joint product propositions can be offered based on the customer's digital journeys with the telco, as well as trigger-based targeting of specific customer segments using their behavior on the telco's platform. In terms of operating model, telcos should consider being a part of a fully integrated "true partnership" model with insurers. Careful consideration is required in setting up a joint teaming model and the commercial structure of a new partnership. A partnership will require both parties to develop new capabilities and integrate, which is determined by the operating model.

INSURANCE GOING DIGITAL: WHY FASTRACK NOW?

For the last few years, the insurance industry has been reeling from a massive digital reorganization. In an increasingly digital world, an increasing number of consumers are moving online. This has led to insurers playing catch-up and investing heavily in digital transformation initiatives.

The COVID-19 pandemic has accelerated this as more and more consumers adopt digital, forcing insurance companies to rethink their existing business and operating models. Some of the trends include:

An increase in latent demand of select insurance products, such as health, life, and event insurance, due to heightened awareness of health and mortality risks in the face of pandemic. In China, health insurance premiums grew by more than 100 percent year-on-year from May to August 2003 after the SARS outbreak.

Increased demand for innovative contextual insurance products, such as need-based insurance linked to the purchase or usage of another product or service. This will be driven by increasing adoption of online shopping and digital services, which have the potential to integrate insurance propositions. For example, a large Chinese insurtech's shipping return policy (launched in partnership with an e-commerce platform) became its most popular product, generating premiums of $168 million in 2016.

The emergence of new digital business models to enable consumption during the pandemic as physical channels become less relevant due to social distancing measures, at least in the short-medium term. An Indian aggregator platform saw 25-40 percent jump in online sales of life and health insurance during lockdown.

Renewed importance of customer intimacy as brands that get closer to customers in this period may be better placed to win loyalty and market share in the longer term. The top five global technology companies, Facebook, Amazon, Apple, Netflix, and Google (FAANG) are becoming increasingly integral to customers' lives. On the other hand, insurers are struggling to improve customer engagement and establish themselves as strong consumer brands.

Enhanced need to improve cost efficiency of operating model through digitization as insurance companies face profitability pressures due to slowing demand and increasing claims costs. Lloyd's of London expects COVID-19 to cost the global insurance industry $203 billion, including underwriting losses and investment portfolio falls, on par with the US terrorist attacks of September 2001.

We believe that this move towards an increase in digital adoption could be a permanent shift in consumer behavior. However, the extent of this shift will depend on many factors such as duration and frequency of lockdowns, maturity of digital infrastructure, culture of innovation and adaptiveness. This represents a massive opportunity and increased urgency for both traditional and new-age insurers to quickly transform their business models to enable a faster and more tangible shift to digital.

DIGITAL CHANNELS: WHY PARTNER WITH PLATFORM PLAYERS?

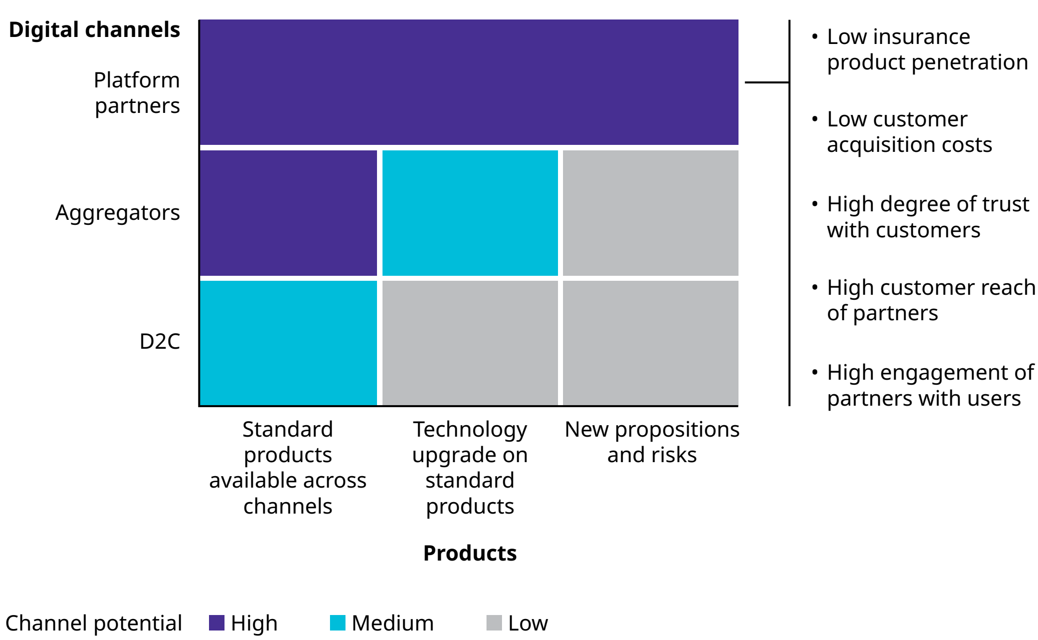
Due to differing starting points and strategic choices made by insurers, three distinct online channels have emerged:

1. **Direct-to-Customer** (D2C)
2. **Aggregators** (such as price comparison websites, online brokers)
3. **Platform partnerships** for contextual insurance

The choice of channels depends on two major factors. First, the type of product segment in insurer's portfolio (such as motor, term life, health, and investments), where the consumer is more self-directed and insurance product brand is important for the customer. Second, investment appetite for the insurer to broad-base product propositions, upgrade technology, data and customer management capabilities, and consumer brand building.

Platform partnerships have already emerged as a critical and efficient channel for distribution on contextual insurance with providers embedding insurance into their customer journeys due to reasons highlighted in Exhibit 1. Insurers must take aggressive steps to capture their potential beyond "journey embedding" and scale up other opportunities in the near term.

Exhibit 1. Digital channels of distribution and case for platform partnerships

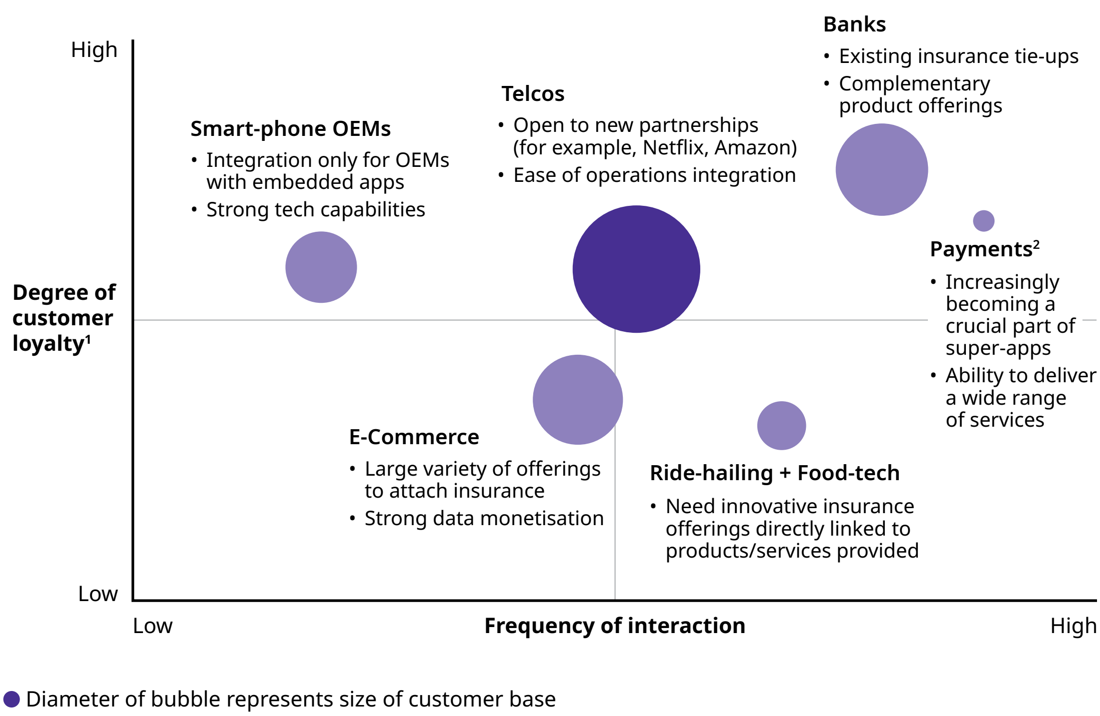


Source: Oliver Wyman analysis

CHOOSING THE RIGHT PARTNERS

Large customer platform owners are ideal for partnerships due to the strength of their customer base, digital-first strategies, and monetization of their customer base. While evaluating the platform owner for partnership, insurers need to keep in mind several factors including size of customer base, frequency of customer interaction, customer loyalty, and ability to deliver.

Exhibit 2. Comparison of potential partnership platforms



1. Includes aspects like brand loyalty, and switching behaviour; 2. Includes only smartphone based payments providers
Source: Oliver Wyman analysis

TELCOS: A WIN-WIN?

Among these, telcos emerge as a valuable platform with the characteristics that make it a credible partner for insurance companies, for the following reasons:

Access to a large customer base: Insurance companies would be able to get access to a large captive smartphone user population which is growing rapidly. Unique mobile user penetration in South East Asia and India is more than 60 percent against an insurance penetration between 5 and 20 percent.

Access to huge amount of customer data: Telcos have wealth of customer information such as behavioral data (customer profile, app usage patterns, bill payment, recharge patterns), contextual data (location, international travel plans, bought a new device) and customer experience data (quality of call, quality of data sessions and satisfaction with customer service). This data can be used by insurers to develop targeted product propositions, as well as to assess customer risk profile for underwriting.

Operator analytical capabilities: Many operators have developed advanced data analytics capabilities to create micro-segmentations and offer personalized products to customers. For instance, most telcos already use geo-localization to push marketing campaigns in real time.

Potential to integrate with customer journey: Insurers can leverage telco assets for end-to-end integration of insurance customer journey. This would mean marketing through telco channels (SMS, app), sign-up on telco app or website, premium collection and claims payouts integrated with telco billing, and availability of self-help on telco app. In India, a mobile assistance and protection services platform has partnered with leading telco player to offer mobile insurance plan through full integration with the operator's app and website.

Access to large distribution network: In markets with lower digital or app penetration, telcos and mobile original equipment manufacturers (OEM) offer access to a much larger physical distribution network compared to insurers to push micro-insurance products.

The partnership with insurance players can also be of significant value to the telcos. Telcos in India and developing markets in South East Asia have one of the lowest average revenue per user (ARPU) in the world and competition has led to a further erosion or flatlining. For example, ARPU for Indian telcos declined by 25 percent and 12 percent in 2017 and 2018 respectively (as per the *Bank of America Global Wireless Matrix* report) before tariff revisions arrested any further decline. However, prevailing competition makes any significant tariff revision of the core connectivity services difficult as it may lead to subscriber churn. Partnership with insurance players can help telcos earn additional revenues from their subscribers and improve loyalty thereby reducing churn.

Several micro-insurance platforms and insurtechs have already begun leveraging the advantages of partnering with telcos. A leading insurtech player in emerging markets partnered with a telco player to offer its microinsurance products to the operator's subscribers. It was able to sell more than 600,000 policies within two years of partnership launch, capturing 12 percent of telco's unique subscriber base. More than 80 percent of these customers were first-time insured customers.

PARTNERING FOR SUCCESS

To build successful and meaningful partnerships, insurers and telcos would need to answer two primary questions for the tie-up:

1. **Product propositions**: What to offer?
2. **Operating model:** How to offer?

PRODUCT PROPOSITIONS: WHAT TO OFFER?

Insurers can develop product propositions in line with their customer targeting strategy as below:

Customer journey integration: Target customers buying products or services at the time of transaction or payment, through propositions that address pain-points observed during this journey. For example, travel insurance with health cover is often offered to customers as an add-on at the time of booking a ticket.

Community targeting: Target existing customer segments with specific products based on "triggers" or purchase behavior such as spending patterns. For example, e-commerce platforms can track order history to identify health-conscious customers and push discounted health insurance products to them.

Incumbent players in the digital partnership platform can switch between the two channels depending upon the maturity level of their customers.

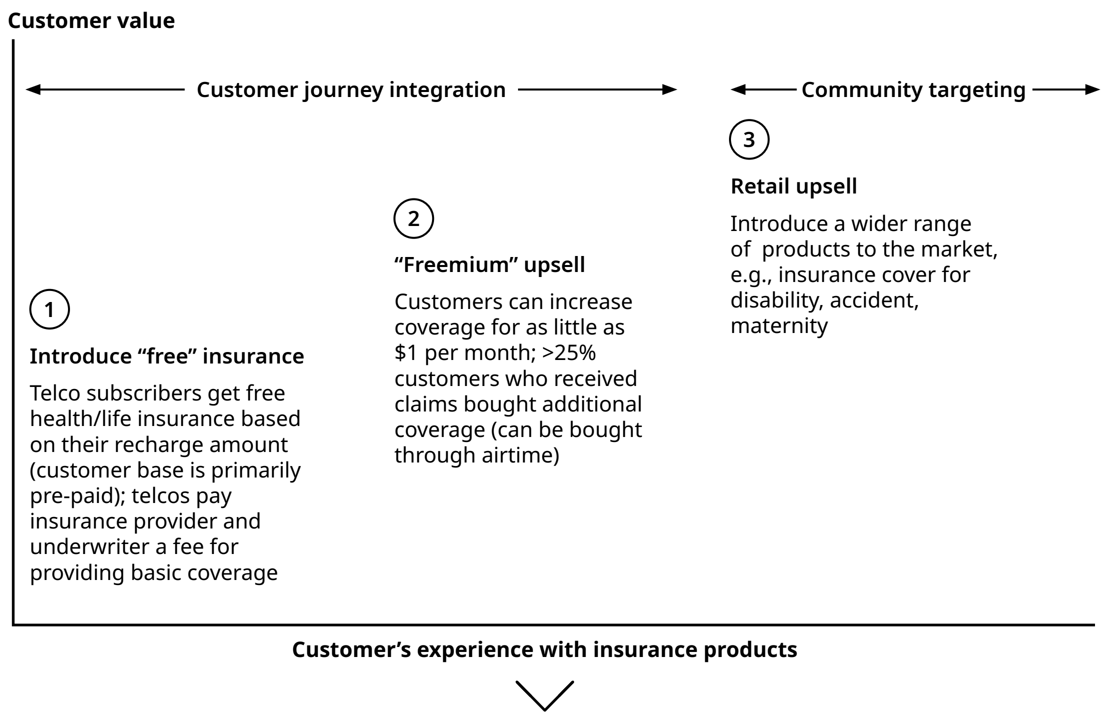
Exhibit 3. Broad propositions within the telco partnership platform

Customer journey integration	Community targeting
Cyber insurance E-wallet cover, transaction fraud cover, credit card protection	**Device-based insurance plans** Physical damage protection when customers shift SIM card to new phone
Telecom plan usage journeys Pre-approved top-up life insurance coverage, compensation against call drops, phone data restoration.	**Health insurance** Personalized insurance based on historical spend with rewards for timely payment
Bite-sized insurance Small ticket size plans, e.g., COVID-19 cover	**Travel insurance** Based on GPS data, customized products to frequent travelers
Reverse journey integration Offering features/services of insurance company's partners as value added services e.g., 5 free doctor consultations a year with a simple life insurance cover	**Other personalized offerings** Life insurance savings plans or home insurance for customers with high monthly spends

Source: Oliver Wyman analysis

Exhibit 4. Case study: Progression of offerings by a specialist insurance provider

A specialist insurance provider has developed pioneering insurance solutions for low-income people in Africa and Asia. It acts as an insurance provider and/or an insurance intermediary. It has introduced ~200 types of insurance products for life, health and accidents. The insurer offers free insurance with a plan to upsell at a later stage in customer's lifecycle.



40+ million customers registered, of which 85% are new to insurance

USD 20+ million claims paid out

Partnerships with **15+ telcos** worldwide, **90+** banking and microfinance firms and 70+ insurance players

Source: Oliver Wyman analysis

OPERATING MODEL: HOW TO OFFER?

As insurers and telcos come together, we have identified three key elements of the partnership operating model to ensure success:

1. **Teaming structure:** How are the roles and responsibilities divided between the partners?
2. **Commercial structure:** How will the partners share their revenues and costs?
3. **Capabilities:** What new capabilities are needed by both? How will these be integrated with each other?

This operating model will not be constant and will need to evolve as the partnership matures and the role of the insurer changes over time.

Exhibit 5. Key elements of a successful partnership operating model

Degree of maturity	Sales agent		True partnership
1. Teaming structure	Siloed	→	Joint
2. Commercial structure	Commission based	→	Profit-linked
3. Capabilities	Limited integration	→	Jointly developed

Source: Oliver Wyman analysis

Teaming structure

The insurer and telco partner needs to divide responsibilities and team roles across the insurance value chain. This includes the demarcation of not only the processes within the value chain, but also the governance structure, including decision-making rights, decision-making processes, conflict-resolution in case of competing objectives, as well as ownership of customer at each step.

Exhibit 6. Teaming structure across the value chain

Insurance value chain

	Proposition design/marketing	Pricing and underwriting	Sales and distribution	Operations and claims management
Sales agent	Propositions are designed by the insurer alone, who uses the partner as a sales front	Insurer has pre-approved products with fixed prices	Sales and distribution occurs via the telco app	Insurer manages claims payouts and policy servicing requests
True partnership	Insurer and telco jointly develop segment value proposition, using customer data from partner Customer journeys are seamlessly integrated with telco channels/assets	Insurer underwrites product based on improved risk profiling from telco data Telco helps price micro products based on existing customer segments	Sales and distribution occurs via the telco app Physical network of telco branches and retailers is used to onboard customers digitally	Insurer processes claims while telco's analytics tools are leveraged for efficient claims segmentation Customer claims journey is integrated with telco assets, e.g., claims payout with bill

☐ Insurer alone ☐ Telco alone ☐ Both insurer and telco

Source: Oliver Wyman analysis

Commercial structure

Depending upon the maturity and role played by each partner, there could be two basic commercial arrangements for the partnership:

Commission-based: The telco partner earns a commission for every insurance policy sold. The commission rates can vary based on the type of the policy, similar to an insurance agent or broker model.

Profit-linked: The insurer and telco partake in the profit generated as true partners, sharing the cost structure to determine cost attributable to each partner. This is usually challenging as it requires both parties to have strong trust in each other.

Between a simple commission-based fee structure for sales agent and profit-linked revenue sharing in a true partnership, insurers and telcos can opt for a range of other commercial structures such as milestone-based fixed fees based on number of policies sold to incentivize sales, and higher commissions for data monetization.

Capabilities

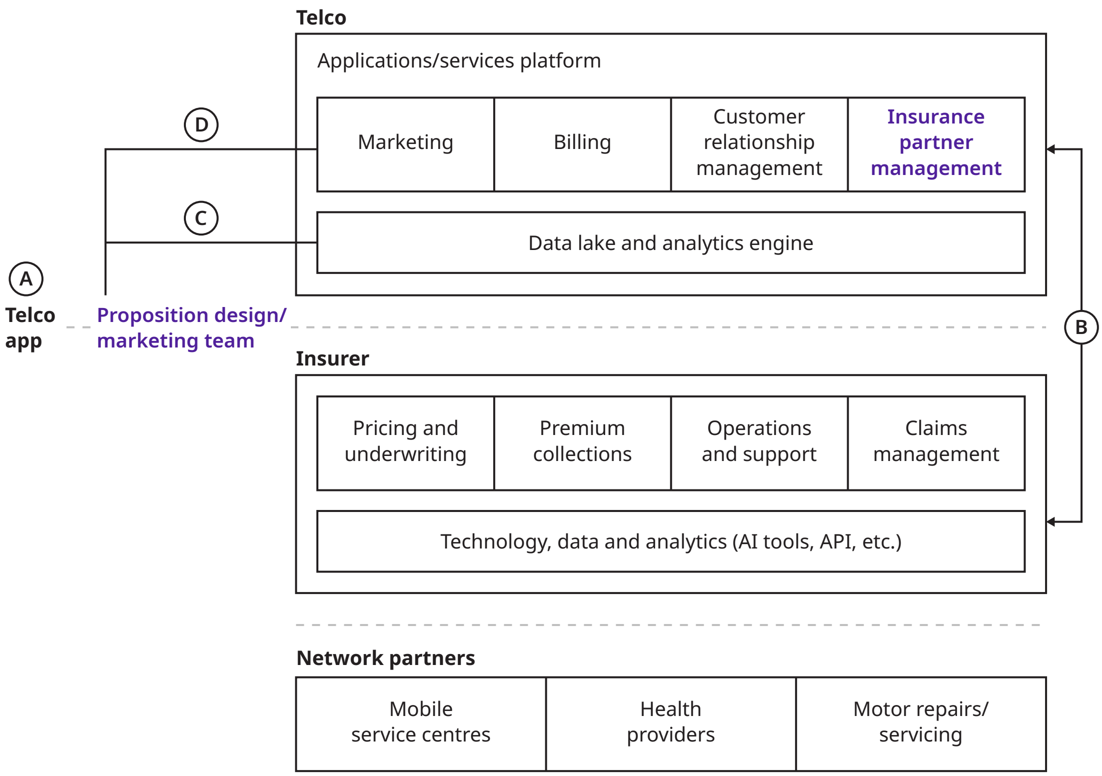
For insurance players and telcos to work together, development of new capabilities and their integration will be important. The extent of integration will be determined by the partnership model.

At the very least, in a sales agent model, the product design and marketing team will need to push the insurance products in the telco app which will require an API orchestration layer. In addition, telcos will need to develop an insurance partner management application for management of the contract with the insurance company to ensure seamless, automated fulfillment of the commercial obligations between the two parties.

The level of integration will be enhanced in the case of a true partnership. The proposition design team, which in this case will also comprise of telco personnel, will additionally need access to the telco data lake and analytics to leverage telco data for developing segmented propositions. Second, they will need access to multiple services on the telco platform to integrate the insurance product journey with the telco product journey. For example, telco app-based product sign-up, integrated marketing campaigns, premium and claims pay-out integrated with telco billing or airtime.

Adoption of a microservices-based architecture by telcos will make it easier for such complex capabilities' integration. A number of telcos are already transforming towards "digital telcos", at times leading with an IT stack revamp built on a future proof micro-service architecture.

Exhibit 7. Capability integration architecture



··· API orchestration layer

■ New partnership capabilities

Sales agent model: A and B
True partnership: A,B,C and D

(A) Product availability on app

(B) Contract management between insurer and telco

(C) Leverage data for product proposition

(D) Integrated telco-insurance customer journey

Source: Oliver Wyman analysis

Insurers will also need to assess and upgrade capabilities across the entire value chain in order to enable the digital business model and leverage partnership benefits to full potential.

Exhibit 8. New capabilities needed by insurers

Product development	• Hyper personalization with proactive, tailored and relevant product offerings • Product factory with product manager centric teams • Agile product innovation cycle, turnaround time ranging from days to weeks
Pricing and underwriting	• Instant TAT — "one-click" processing • Automated process using predictive analytics • Customer micro-segmentation
Claims management	• Automation across most process stages • Granular, automated segmentation for allocation and assessment • Extensive vendor network with innovative risk-reward sharing mechanisms • Fungible team model with hard and soft KPIs
Data and analytics	• Defined, prioritized vision of analytics across the organisation • Multiple data sources and capability to process unstructured data • Clearly defined governance structure and compliant data standards • Pro-active recruitment of skills and frequent opportunities to upskill
Technology	• Technology infrastructure is aligned with business performance goals • Adaption of Agile and DevOps methodology with cross functional teams • Uniform integration and common end points for all partners supported by synchronous revision of business features

Source: Oliver Wyman analysis

While we have covered the basic elements of such a partnership here, there are still many questions for insurers and telcos to ensure a successful execution as they step into partnerships:

1. How can product propositions be co-created? What mechanisms can be used to test-and-learn, and minimize risks from new-to-market or new-to-industry propositions?
2. How to choose a mutually beneficial commercial structure that works for both partners?
3. What are the changes required in the organization structure, if any? What are the key areas that could require teams to upskill?
4. What should be the governance structure for such a partnership?
5. What could be the challenges in systems and technical integration?
6. Are there any regulatory considerations to be kept in mind?

Oliver Wyman is a global leader in management consulting that combines deep industry knowledge with specialized expertise in strategy, operations, risk management, and organization transformation.

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