



## Less Is More

Why the time has come to make insurance products simpler

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The insurance industry is facing a giant challenge: Its product portfolio must be standardized to get rid of the complexity of the past and the associated cost-intensive legacy IT. Only then will insurers be agile enough to be able to link with exactly those ecosystems that are pivotal to their market strategy. However, existing products are still managed very differently to date. For this reason, it is necessary to quickly take action. The envisaged digitization will only be a success if all products across the group are based on very few development models that coherently meet actuarial, sales-based, and technical market demands. No doubt, setting up such a framework is a very ambitious plan. Pioneers like Chinese insurance group Ping An or German Allianz are already showing great commitment to implementing this strategy.

"Our products are still far too complicated", Iván de la Sota openly admitted in the [interview with Handelsblatt newspaper](#) dated February of this year. However, with a healthy portion of confidence the Allianz Chief Business Transformation Officer followed up with a vision: "That will change. In future we will be offering significantly fewer, similarly looking products with similar functionalities – and ultimately our business segments will be operating a shared IT platform. Once we have streamlined our segments we can provide innovations to the entire group within a short period of time."

People focusing on slimming down the portfolio like Iván de la Sota base their actions on two findings in particular. The first being that, when analyzing the different variants of comparable insurance products, it



becomes clear that the majority of their characteristics boast a sufficient amount of shared properties to transfer the components representing said properties to a shared architecture. The far-reaching conformity in terms of product and process logic is evident in all business fields and also persists throughout individual cultural characteristics in different national organizations. With this in mind, the absolutely essential objective is to develop shared elements and form a congruent development environment for all product designers within the company.

The second finding is that the main technological hindrance for a roll out of standardized products throughout the group has been tackled in the meantime. Former programs with the aim of product harmonization always had to cope with the circumstance that legacy systems within different business units were too proprietary and heterogeneous to integrate cross-divisional governance. In many cases different platforms downright tempted us to tackle comparable market demands with individual measures each time. Thanks to the availability of cloud-based platform models it has now become possible to clean up IT to an extent where standardized product development can be implemented with the required level of consistency.

### **Corporate and Financial Added Value**

The benefit of a share product and process logic is extraordinarily far-reaching and runs through the entire company because the extent to which products can be managed as part of a standardized process defines the maturity of the entire process organization. The resulting added value enhances both corporate and financial scopes. Let's initially have a look at the monetary side: Significantly lower production and process costs result at all levels of the product life cycle. They stretch from the sales phase to claims management right to how changes to contracts are handled. According to project experience



gained by research and advisory firm ISG this has the potential of generating cost savings between 15 and 30 percent.

In line with dropping unit costs companies will develop new funds to make use of freedoms arising during the course of product standardization. New market opportunities most of all result from insurance companies becoming significantly more agile to adapt their existing offer to changed market demands and launching innovations, such as completely new insurance models on the market as soon as possible. On this basis, worldwide roll outs can be implemented considerably quicker than in the past so that new solutions can be scaled a lot more convincingly.

### **Digital Twin as a Key to Success**

So much for the expectations of benefits associated with insurance products with a simpler design. In an effort to understand what needs to be done on the way there it is also worthwhile to have a closer look at the deficits associated with historically grown portfolios and the supporting process organization. Why are existing products too complicated, preventing them from also being manageable within the framework conditions of the platform economy? Companies are essentially tackling four drivers of complexity. In many cases there are too many...

... insured objects in a single tariff

... legacy tariff generations

... country-specific differences

... special characteristics that are intended to help individually serve different sales channels.

However, that's not all. Individual differences in product design increase exponentially within the operative process environment. If you then also look at the variety of historically grown IT systems, you end up with a challenging complexity matrix. Anyone aiming to implement a



coherent framework is advised to base their methodical thinking on industrial companies that already started years ago with creating a digital twin of their products and the operative processes required to produce them. This kind of digital representation of individual value creation enables companies to model and test products and procedures in a standardized way, roll them out as part of a controlled process and test the performance of new elements in real time to then implement potential adaptations within the shortest possible development cycles. In an effort to achieve this, the digital twin leads to a standardization of developer expertise, design methods and the technical components to be used.

Setting up and establishing such a framework is anything but trivial. The elements to take into account in each case would go beyond the boundaries of this article, also considering that the demands to be taken into account can be very different depending on corporate organization and business model. Nevertheless there are five design principles intended to provide orientation when establishing such a model:

1. Integrating genuine orientation towards customers
2. Streamlining the portfolio
3. Breaking down legacy issues
4. Strengthening the pricing expertise
5. Creating comprehensive offers



## **1st Design Principle: Integrating Genuine Orientation towards Customers**

The stipulation to put customers and their demands at the core of one's products is surely as ancient as the insurance business itself. However, this fundamental belief has been significantly driven away from the core as a result of the increased complexity at all levels. This is especially true for meeting the customer's needs to understand the functionality and added value of an insurance product without time-consuming explanations. In an effort to return to intuitively tangible and thus also significantly more approachable offers, the design framework must create the preconditions to limit the number of applicable differentiation criteria to a genuine minimum. The most important maxim for this purpose is: Before approval every additional characteristic of an element must be checked in terms of whether it will contribute to a market-relevant differentiation in a measurable way. If this is not the case, it is better to merely use the standard.

## **2nd Design Principle: Streamlining the Portfolio**

Regardless of whether developers are working on updating existing products or designing new offers, it is always important to keep an eye on the entire customer journey – from initial contact to underwriting and claims management to terminating the contractual relationship. In this process, the core objective is to always end up with a minimum of package solutions to meet the expected benefits of the vast majority of customers. On the other side, the aim must be to avoid insurance cover with low market potential and high levels of internal complexity. Following these specifications inevitably leads to streamlined portfolios. The more insurance companies then streamline their existing products, the more freedoms they develop to transfer additional value creation steps and create more comprehensive offers (cf. Design Principle no. 5).



### **3rd Design Principle: Breaking Down Legacy Issues**

New products must be designed so that they particularly relieve the strain on those departments that are most affected by legacy issues. These most of all include cover, pricing and administration. In this process, it is paramount to create product and process-related prerequisites to convert all tariffs to the most recent tariff generation and the most recent version of the General Terms and Conditions as quickly as possible. The design must also make sure that the correspondingly valid terms and conditions, tariff systems and discount programs can be adapted at any time without having to touch product models and backend systems.

### **4th Design Principle: Strengthening the Pricing Expertise**

A standardized platform for technology and processes leads to an improved understanding of production costs. A shared basis to measure products results because identical elements of the framework structure are always used in each case. The involved gain in transparency permits more accurate forms of productivity control and pricing. The framework structure also standardizes the discount model for all business fields and sales channels. Within the context of discounts the only difference will then be the parameter amounts. Any deviation from this standard must be justified by a measurable business benefit.

### **5th Design Principle: Creating Comprehensive Offers**

From the company's point of view, the most important benefit of the framework is to address customers more and more throughout their entire lives. This is exactly where the development opportunities that networking via platforms offers come into play. For instance within smart city, smart home, remote medical care or industrial internet ecosystems. Platforms within these environments and economies offer



companies many links to intensify interaction with their customers in a way that goes far beyond the actual insurance business. On this basis there will continuously be opportunities to acquire new knowledge in order to open up further customer segments and develop additional areas of value creation.