Digital Business

Setting Up a Successful Insurance Venture

Precise business and operating model definitions can help insurers spin off ventures that stay ahead of customer needs and market requirements. Here are some lessons we've acquired by helping our clients establish winning ventures.

Executive Summary

Modern insurance is the result of a series of innovations that happened long ago – be it Edward Lloyd's invention of the marine insurance market in a coffee shop that became Lloyd's of London, or Benjamin Franklin's introduction of the principle of rates based on property risk assessments, or the establishment of life assurance fundamentals by Edward Rowe Mores.

Fast forward to today. The insurance industry is at an inflection point. Traditional risk management is being redefined with the changing definition of risk and an increasing emphasis on prevention ahead of indemnification. Consumerization and digitalization are at the heart of how the industry is reshaping. Consumerization is being driven by customers' expectations for individualized, personalized and on-demand offerings. Digitalization is becoming pervasive across both customer touch points and decision-making processes.

Insurers are responding by exploring new business models such as event-driven parametric insurance, risk protection services and services that are complementary to insurance. While insurtechs (which are incubated with agility at their core) are succeeding by rewriting the

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rules of business, traditional players are struggling. Established carriers suffer from extensive manual processes, leaders who strongly believe in those processes, inflexible legacy systems and a heavy dependency on agents for selling.

To break these shackles, insurers globally are setting up ventures in parallel to their traditional business. In the second quarter of 2018, insurance technology ventures totaled $527 million in 71 deals, according to a quarterly survey by Willis Towers Watson Securities.[1] Insurance ventures have proliferated via the establishment of dedicated stand-alone operations. Examples include Liberty Mutual's Solaria Labs, MetLife's LumenLab, Guardian Life's GIS Strategic Ventures, American Family Ventures, MassMutual Ventures and Aviva Ventures, among others.

In parallel, a number of ventures have been established by noninsurance entities that are looking to exploit growth opportunities in the insurance space.

This white paper explores the unique challenges in establishing insurance ventures, and how to define successful business and operating models.

Five learnings from establishing insurance ventures

The success of insurance ventures often depends on their uniqueness – i.e., how they deviate from traditional insurance environments. Our takeaways:

1. **It's not about the big platforms.** A key component of a successful venture is the core platform that supports its business. Traditional insurers select platforms based on functional richness. Ventures prioritize investments – e.g., to enhance user experience rather than to provide technologically complex features such as multicurrency support or functionally rich capabilities such as support for extraordinary life events.

   Insurance ventures can look beyond the large platform providers with heavy functionalities and evaluate small, nimble platforms that focus on experience. The success of the venture depends on the platform satisfying these criteria:

   - **Business agility:** Indicators here are the ability to go-live fast with a minimum viable product (MVP) and to adapt faster to customer feedback.
   - **Technology flexibility:** This typically includes technological robustness, scalable infrastructure, ease of integration and sophisticated data-handling capabilities.
   - **Digital capability**: Of utmost importance is the digital experience provided by the platform, which should increase the engagement with the customer.
   - **Cost of implementation:** This is gauged by the amount of money required to deploy one line of business with minimal customization.
   - **Implementation time:** This is measured by the time it takes to deploy one product line with minimal customization, and by subsequent rapid configurations of new features, states and products.

2. **The perfect mélange: Startup exuberance with practicality**. Insurance ventures are typically formed with two distinct sets of people – individuals with a traditional insurance carrier background and those with startup experience. The individuals with insurance experience often find it difficult to immediately adapt to the agility of a startup. The individuals with startup experience can find it hard to think of processes that are needed for the long-term sustenance of a financial entity. These difficulties often lead to differences of opinions and can delay decisions. Additional delays can also creep in if a decision structure is not clearly established. For example, who has the final word in the insurance product design – the customer insights team or the insurance product team?

   Startup companies should establish clear roles and responsibilities, and also engage third-party services to facilitate faster decision-making and resolve conflicts.

3. **What is not created now, fails later.** Innovations cannot wait for implementation. They address user needs that exist today, and the insurance industry is changing rapidly.

   Ventures should adopt the "start small, fail fast" approach in their design, where they need to be able to break the "big" idea into "small prototypes" and test them in the market. Prototypes that evoke positive market sentiments should be pivoted to quick launch so that they can ride on the wave of acceptance and be profitable.

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4. **A healthy relationship with the parent company matters.** The existence of a parent firm might create issues: delays due to decision dependencies, cost pressures that could lead to roadblocks and possible regulatory implications if the parent company is also an insurer.

   The purpose of the venture should be clear – it can be an incubator for the parent company or a direct seller independent of the parent company. Based on the intended purpose, it is important to establish the right relationship with the parent – define the role of the parent firm in decision-making, strategize geographical presence with respect to the parent (e.g., should they sell in the same states?), and determine operational and technological reuse/ synergies (e.g., should they use the same CRM and financial processing systems?).

5. **The critical path might change the path of the venture.** Setting up the venture requires managing multiple streams of work. The most critical workstream might not be the one that takes the most time. For example, regulatory approval involves obtaining the NAIC ID, state license and the product/rate filings, which is usually more time-consuming and cumbersome than envisioned, and can lead to launch delays. Focusing on a critical path can create unforeseen launch issues which can strangle fledgling ventures in a cobweb of activities and delays.

   When time-to-market is the critical consideration, ventures should ensure that time-consuming and externally dependent workstreams are prioritized.

Unique considerations for a venture setup

LEARNINGS	UNIQUENESS/CHALLENGES	KEY CONSIDERATIONS FOR SETUP
It's not about the big platforms.	Business platform for a venture is beyond just functional coverage; other factors like digital robustness and agility are important.	What are the key selection parameters for the right platform? Who should we look at beyond the big players of yesterday?
The perfect mélange: Startup exuberance with practicality.	Convergence of people with traditional and startup mentalities can lead to decision delays.	How should we enable better collaboration and decision-making?
What is not created now, fails later.	Time-to-market is key to the success of a venture; slow and steady will not win the race.	How do we create a market-tested and compelling solution? How do we ensure agility and faster turnaround?
A healthy relationship with parent company matters.	Relationship with the parent company needs to be strategized early on to avoid roadblocks and regulatory concerns.	How do we strategize the right relationship with the parent company (operations, technology synergies, office base, regulations)?
The critical path might change the path of the venture.	The criticality of a step vs. the time taken for setup requires early planning: Critical steps may not always be the ones with the maximum completion time.	What would be the critical path for the venture? How do we define it?

Source: Cognizant
Figure 1

Quick Take

Establishing Insurance Ventures for Leading Companies

One of the leading financial services firms in North America wanted to attract newer, digitally savvy insurance customer segments. The firm engaged us to help set up a digital venture that was not bound by the operating model of the parent firm. We worked as a strategic advisor and helped the client through the entire journey, from strategy to implementation support. The insurance venture was launched, from idea to implementation, in roughly 17 months.

A growing capital management firm in North America sought to create a venture to enter the property insurance market, with a focus on specific types of properties. The client partnered with us to define and implement the operating model of the new insurance venture. The insurer is now licensed to sell in all 50 states in the U.S.

A large investment company wanted to start a property and casualty insurtech across Europe and North America. We were engaged in a strategic role to help the company design and set up their risk engineering function – including risk engineering processes, risk analytics and the risk engineering platform. The risk engineering function helped the insurer in writing more profitable business. The insurer currently writes over $1 billion of premiums for clients globally.

Design principles for a successful insurance venture

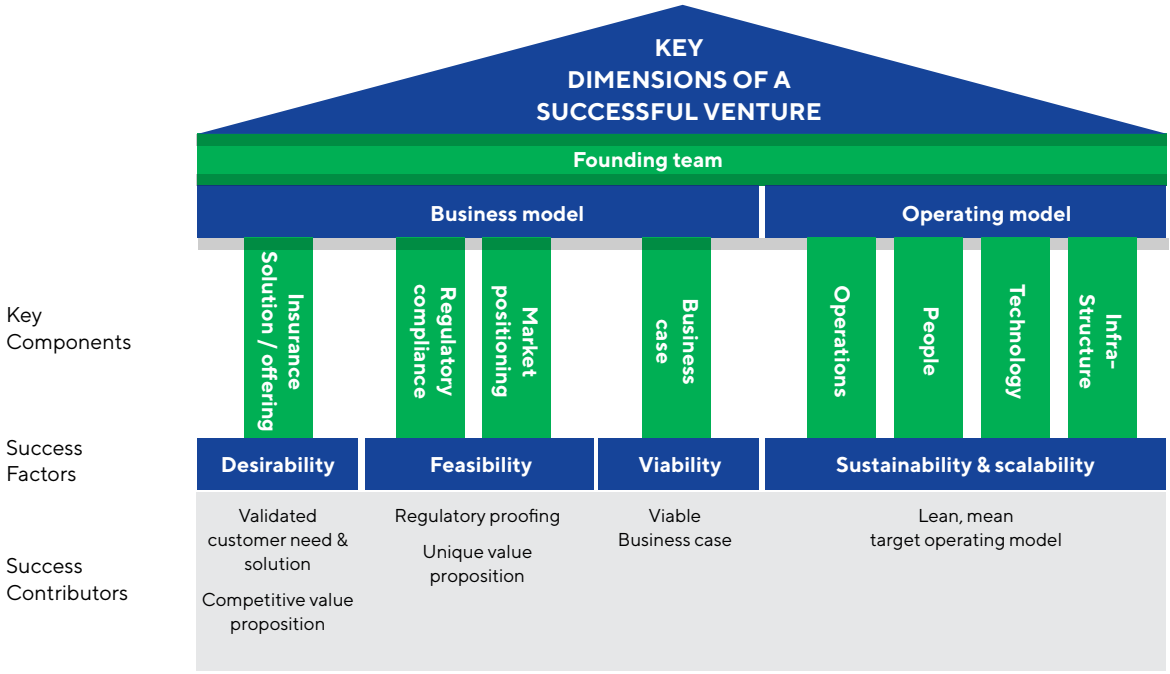
Roughly 70% of startup tech companies fail, usually within 20 months.[2] Examples include peer-to-peer (P2P) car insurance provider Guevara, which started in late 2016, shut down during Q1 2018 and is now looking to start afresh;[3] millennial gadget and bike insurance provider Kinsu, which started in 2016 and decided to close in Q4 2018;[4] drone startup Airware, which partnered with Everest Insurance in June 2018 and ceased operations in September 2018.[5] Many of these ventures failed due to these reasons:

- **Ineffective solution design:** They either were unable to address customer needs and expectations, or they lacked a competitive edge.
- **Insolvency:** They ran out of cash due to the lack of a well-planned business case up front.
- **Ineffective operating model and management:** The team failed to effectively translate vision and strategy into execution on the ground.
- **Personnel issues:** They didn't have the right team, suffered key management or development departures, or lost focus.

To navigate these potential pitfalls, the venture needs a business model and an operating model built in a way that contributes to the key success factors: desirability, viability, feasibility and sustainability/ scalability. The business and operating model must be overseen and anchored by the right founding team with complementary skills, unified vision and the perseverance to carry the venture forward beyond obstacles.

Figure 2 depicts the key dimensions of a successful insurance venture across the business and operating models. The unique considerations listed above are factored into the business and operating model setup.

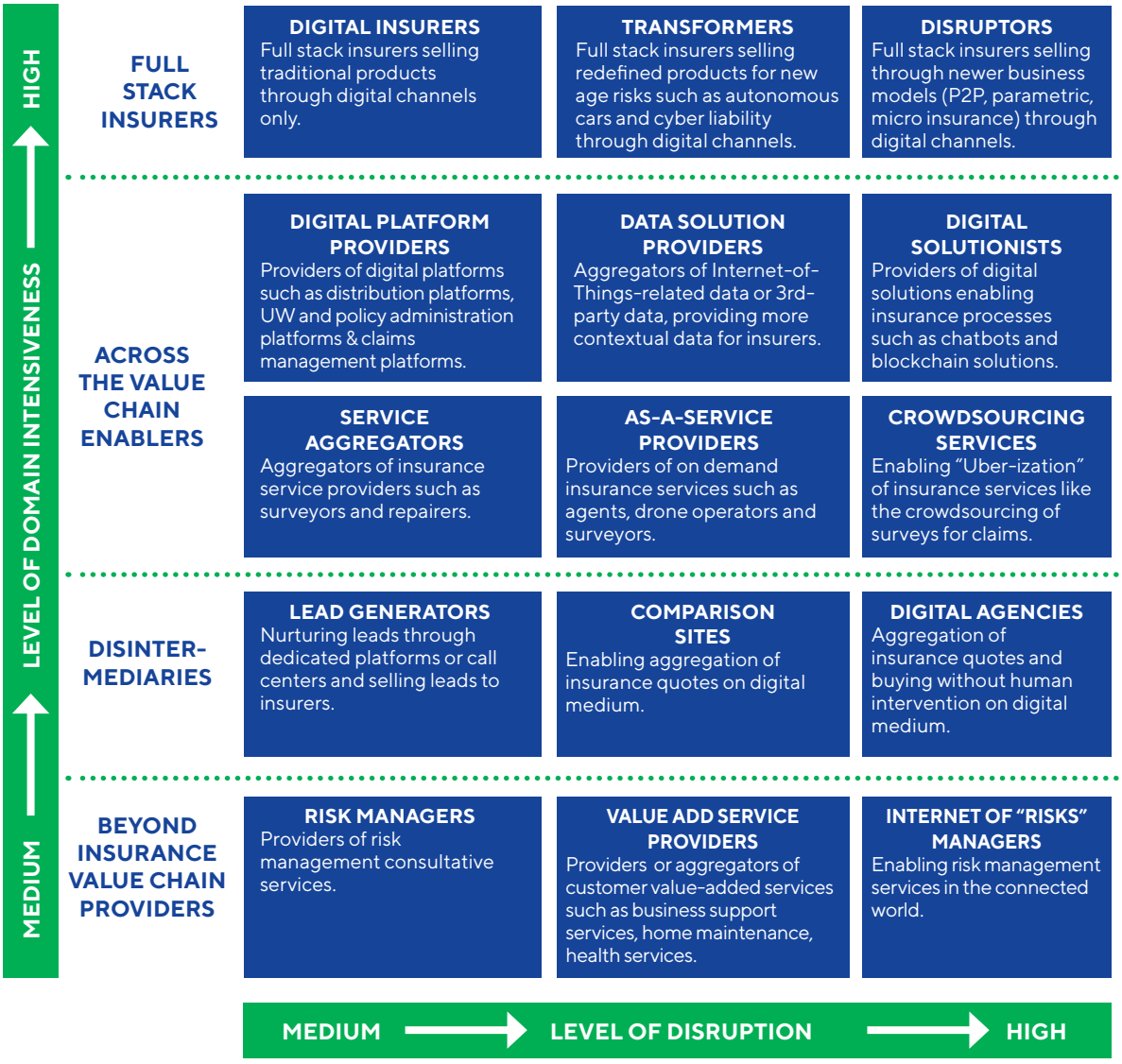
Key dimensions of a successful venture



Source: Cognizant
Figure 2

There are different types of business models available to insurance ventures today. Figure 3 presents our Venture Navigator, which depicts various types of insurance ventures based on two factors: level of disruption caused by the venture to prevailing business models, and level of insurance intensiveness.

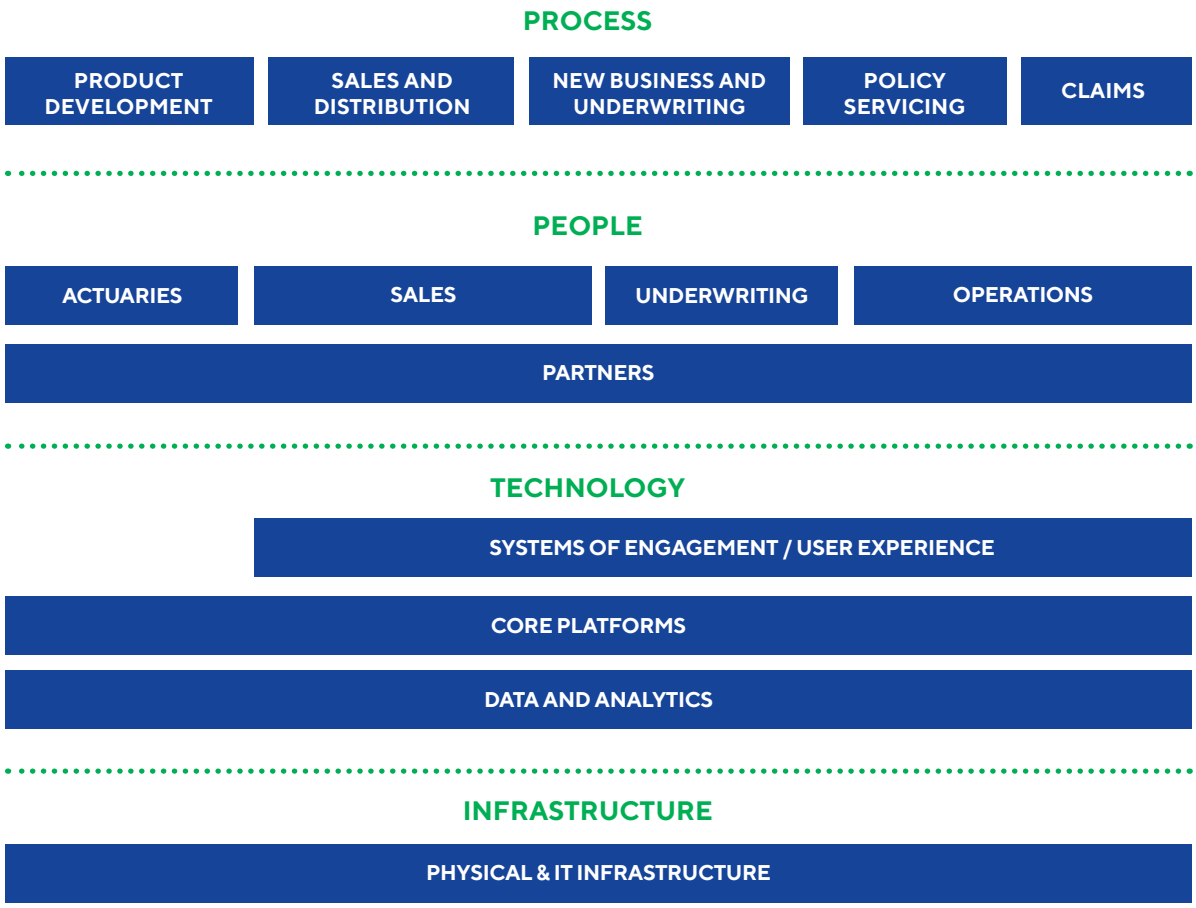
Navigating insurance ventures across different business models



Source: Cognizant's Insurance Venture Navigator
Figure 3

The operating model of the venture depends on the business model. The processes required to support the venture are determined by the business model, and typically drive the people and technology needs. For example, setting up a new-age insurance company as a venture will require an end-to-end value chain setup, while a claims-services-related venture will require only pertinent claims processes. Figure 4 represents a view of an end-to-end insurance operating model blueprint across the dimensions of people, process, technology and infrastructure.

Insurance operating model



Source: Cognizant
Figure 4

'Imagineering' a venture blueprint

To ensure a successful setup of an insurance venture, startups must visualize an innovative future and build the execution capability to realize it. Broadly speaking, this can be viewed as two phases of execution:

- Incubating the venture with a winning and future-forward business model.
- Designing the operating model required to support and scale the incubated venture.

Incubating the venture

The process should begin with asking a few key questions across the dimensions of the business model (as spelled out in Figure 5)

Incubating the venture

KEY DIMENSIONS	KEY QUESTIONS TO BE CONSIDERED	SUCCESS CRITERIA
OFFERING	▪ Who are the target customers (segments and markets)? ▪ What are opportunities for gain creators and pain relievers for the target customer segment? ▪ What should be the unique value proposition? ▪ What is the minimum viable/loveable product (MVP/MLP) which can be launched? ▪ What is the future product backlog?	▪ Validated customer need with desirable and feasible solution blueprint.
MARKET POSITIONING	▪ What is the differentiated proposition compared to existing products? ▪ How can the proposition be explained to a customer through familiar notions? ▪ What will be the right channel of communication?	▪ Unique selling proposition.
REGULATORY APPROVALS AND COMPLIANCE	▪ What are the different regulatory approvals required for registering the insurance venture? ▪ What are the applicable product and rate filing requirements? ▪ What are the applicable regulatory laws for operations/processes?	▪ Regulatory proofing.
COMMERCIALS	▪ What are the cost drivers and levers for influencing them? ▪ What are the revenue streams and revenue projections? ▪ What is the breakeven point? ▪ What are the investment requirements over the next three years?	▪ Viable business case.

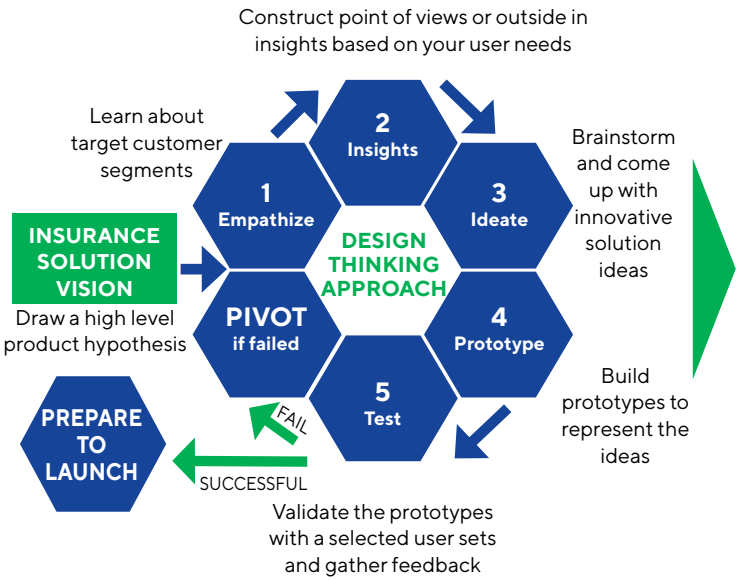
Source: Cognizant
Figure 5

Figure 6 depicts a systematic approach to effective business model design that addresses the key questions asked in Figure 5. A design-thinking-based approach provides a successful mode of building an effective solution and business model that can be taken to market.

The venture needs to start with a high-level solution vision. The needs of the target customers (identified as a key part of the vision) should be thoroughly understood through behavioral research. Solution ideas that address these needs are then vetted via innovation workshops. Selected ones are prototyped and then validated with a selected set of target customers.

The process is iterative, and the outcome is a market-ready solution idea(s). A detailed business case is designed for the venture to understand the investment requirements and revenue projections. Would-be startup teams must have a holistic understanding of all the regulatory requirements applicable to the solution idea and venture setup before it is launched.

Defining the business model



FOR IDEAS THAT ARE PREPARED TO LAUNCH	
BUSINESS CASE	▪ Identify revenue sources and project revenue based on assumptions. ▪ Identify the cost drivers and project costs. ▪ Develop a detailed business case. ▪ Prepare a plan for the investments required.
REGULATORY COMPLIANCE	▪ Conduct market scan to understand all the regulatory requirements – for setup, products and operations. ▪ Prepare a plan for the pre-launch requirements. ▪ Document the regulatory requirements that need to be considered during operating model setup.
MARKET POSITIONING STRATEGY	▪ Conduct market research to understand the competition, partners in the market, etc. ▪ Design a market positioning strategy – market entry, brand strategy, content strategy and channel strategy.

Source: Cognizant
Figure 6

Designing the operating model

With a holistic business model design established, it becomes easier for the company to define an aligned operating model design – across process, people, technology and infrastructure. Key questions that insurers should consider across these attributes are covered in Figure 7 (next page).

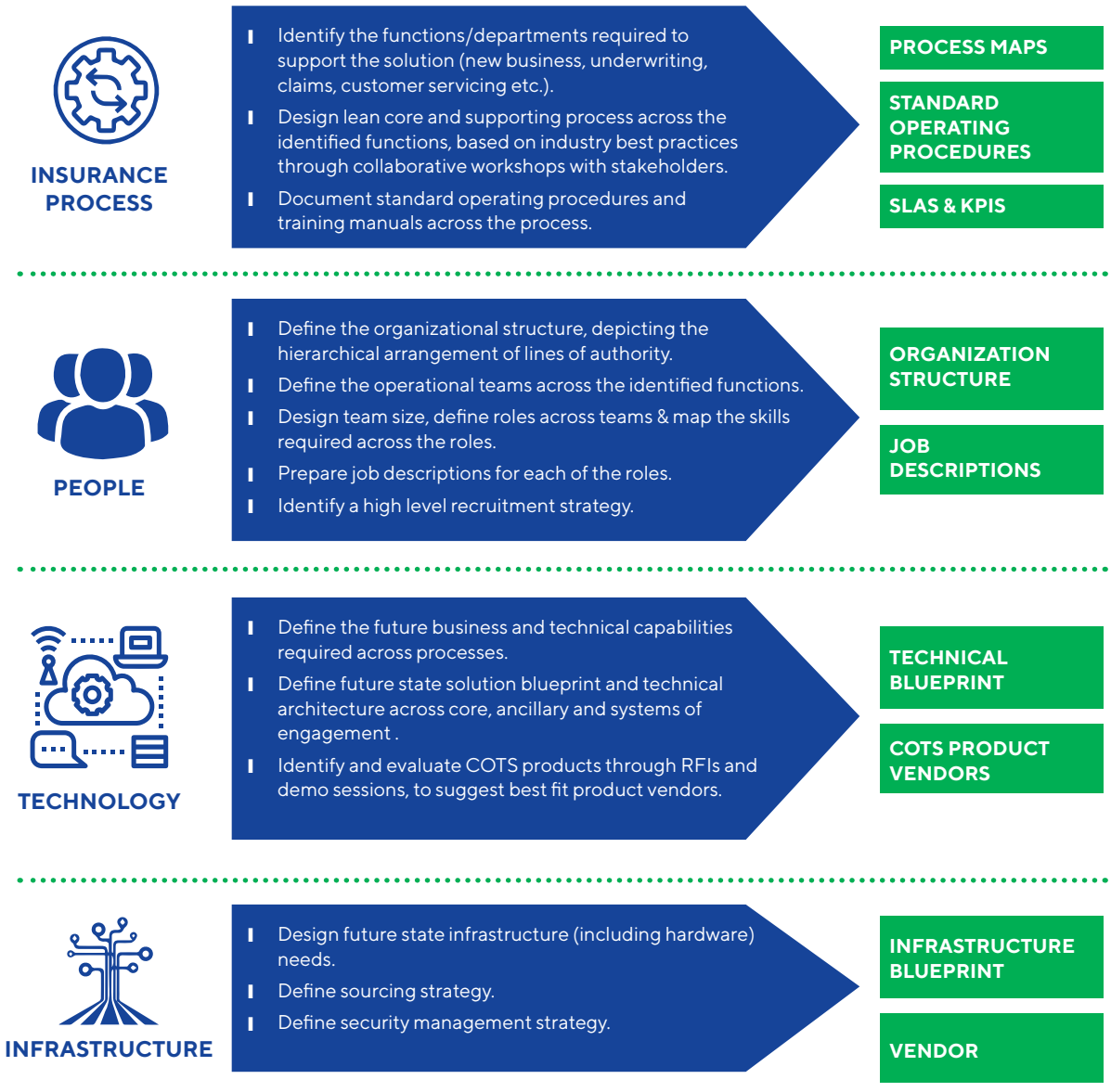
Operational Considerations

KEY DIMENSIONS	KEY QUESTIONS TO BE CONSIDERED	SUCCESS CRITERIA
ACTUARIAL	▌How to manage the filing processes with the regulatory authorities? ▌What tools should be enabled for the actuaries?	Financial soundness with time-to-market.
SALES	▌What is the optimal set of channels required for the designed product and targeted customer segments? How to integrate online and offline channels?	Sales effectiveness.
	▌How can "true fans" be created in the market to build the brand? ▌How can the sales channel be enabled to generate more leads and conversions? ▌Is multi-branding needed with different channel partners?	Market penetration.
	▌How can conflicts be avoided among channels - existing or new? ▌What can be innovative ways of partner remuneration?	Channel retention.
UNDERWRITING	▌How much of straight-through-processing is desirable? ▌How can the underwriting process be simplified? ▌Will some of the current insurance roles (e.g., raters, policy processors) exist in the future? If so, how can the skills of people be "future-proofed"? ▌What are the system capabilities required for our underwriting functions?	Process and cost-efficiency.
	▌What third-party data sources are available to get better contextual data of the risk? How may those sources be integrated? ▌How can artificial intelligence or advanced analytics be leveraged to help in the underwriting decision-making?	Pricing accuracy.
POLICY SERVICING OPERATIONS	▌How to create standard operating procedures based on deliberate design to make operations repeatable and efficient? ▌How can the efficiency of the customer service representatives and back office workers be tracked and managed? ▌How to utilize analytics for continuous improvements?	Process and cost-efficiency.
	▌How much self-servicing can be enabled for the customers?	Customer satisfaction.
CLAIMS OPERATIONS	▌How can the claim processes be made cost-effective and customer-centric? ▌How can a cost-effective partnership strategy be designed for claims – loss surveys, risk prevention services, towing, roadside assistance, recovery, repairs? ▌What are the third-party data sources available to get better contextual data of the loss? ▌What are the system capabilities required to support the processes?	Process efficiency.
	▌What self-servicing capabilities are available for the customer?	Customer satisfaction.
	▌How can artificial intelligence be leveraged across claims functions such as reserving, assignment, estimation and adjudication for better claims decisions?	Loss containment.
INFRASTRUCTURE	▌What are the infrastructure requirements for operations including physical locations, hardware and software assets? ▌Can any of the parent company's existing offices or setup be leveraged for the venture, if available? ▌How should IT infrastructure be setup and automated so that new environments can be automatically configured?	Cost-efficiency.
	▌How should IT security vulnerabilities be identified and resolved, in a continuous manner?	Cybersecurity.

Source: Cognizant
Figure 7

Figure 8 details the key steps to design a lean operating model in a well-integrated and sequenced manner. The internal journeys (end-to-end processes) required to support the business model need to be robustly orchestrated. Following that, the supporting people, technology and infrastructure requirements need to be drafted such that they ensure the leanest and most efficient process flows.

Designing the operating model



Source: Cognizant
Figure 8

The journey encompasses choosing the right design principles given the type of insurance startup and then "imagineering" to incubate the venture and design the operating model.

The road ahead

Setting up an insurance venture is a complex journey. It requires combining the agility of a startup, knowledge of the insurance business and the resilience to overcome failures. The journey encompasses choosing the right design principles given the type of insurance startup and then "imagineering" to incubate the venture and design the operating model. In this journey, diverse capabilities are required. Insurance ventures can increase their chances of success by choosing partners that can complement and augment their capabilities.

The right partner can bring in capabilities ranging across business consulting, experience design and operations implementation. Consulting capability can assist in designing the right business and operating models working with various stakeholders. Design capability can assist in creating products that are desirable and engaging. Implementation capability can assist in bringing scale and speed of launching while reducing the risks.

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Chris Blatchly is the Chief Digital Officer and Consulting Leader for Insurance at Cognizant. Chris helps insurers harness the power of new technologies and the information they create to build their capabilities and transform their businesses. As a former consulting partner, software company business unit leader and large company IT executive, he has a unique perspective on technology strategy and executing process-driven business transformation. Chris has a deep background in insurance and financial services, and he has often been in the forefront of working with the latest technologies and successfully implementing them for his clients. Chris holds an MBA in marketing from the University of Toronto, a master's degree in economics from Western University and a bachelor's degree in economics from Trent University. He can be reached at Christopher.Blatchly@cognizant.com | www.linkedin.com/in/chrisblatchly-3981a39.

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Endnotes

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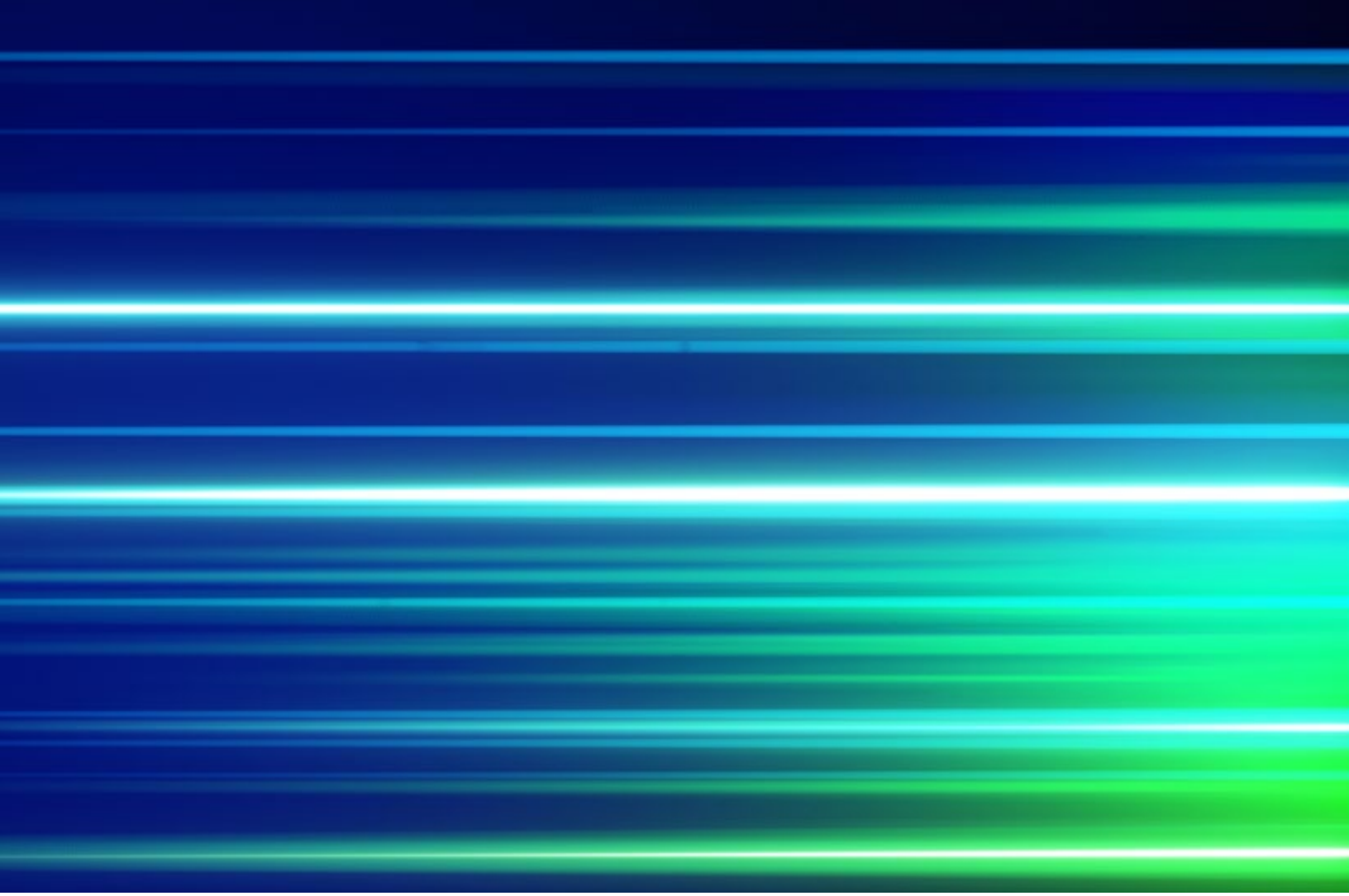

About Cognizant's Insurance Business Unit

Cognizant is a leading global services partner for the insurance industry. In fact, seven of the top 10 global insurers and 33 of the top 50 U.S. insurers benefit from our integrated services portfolio. We help our clients run better by driving greater efficiency and effectiveness, while simultaneously helping them run differently by innovating and transforming their businesses for the future. Cognizant redefines the way its clients operate — from increasing sales and marketing effectiveness, to driving process improvements and modernizing legacy systems, to sourcing business operations.

About Cognizant

Cognizant (Nasdaq-100: CTSH) is one of the world's leading professional services companies, transforming clients' business, operating and technology models for the digital era. Our unique industry-based, consultative approach helps clients envision, build and run more innovative and efficient businesses. Headquartered in the U.S., Cognizant is ranked 195 on the Fortune 500 and is consistently listed among the most admired companies in the world. Learn how Cognizant helps clients lead with digital at www.cognizant.com or follow us @Cognizant.

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