

Insurance industry opportunities in the e-world

**Shirley Gregor & David Pitt
Australian National University**

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Outline

1. The e-world
2. Framework for analysis of strategic e-commerce opportunities
 - 3 environmental levels
 - 3 strategy categories
3. Insurance e-commerce environment
4. Strategic business models?
5. Discussion

1. The e-World



Definition of e-commerce/e-business:

“A variety of market transactions that are enabled by information technology and represents the entire collection of actions that support commercial activities on a network” (Zwass, 1999).

Includes:

- **Business-to-business (B2B)**
- **Business-to-consumer (B2C)**
- **Business-to-government (B2G)**
- **Government-to-government (G2G)**
- **Citizen-to-government (C2G)**

- **B2B type (37% of GDP) is bigger than B2C (24% of GDP)** (NOIE, 2002)
- **Support transactions still important**
 - **EDI – electronic data interchange – before internet EDI was expensive because of cost of private networks (VANs – value added network)**
 - **EFT – Electronic funds transfer – large cost savings**

Characteristics of the e-world?



What is different with the e-world?

1. **Range and reach of organizational activities – more of everything – geographical span, quantity of information, business partners**
2. **Degree of interconnectedness – linkages across agencies, enterprises, industries, nations**
3. **Speed of change – WWW and e-commerce really only since 1994**

- 4. More ICT options, new communication media (eg mobile commerce)**
- 5. Expectations (clients, employees,...)**
- 6. Degree of virtualness – many activities that were face-to-face can be online (eg auctions, customer service), not necessarily well understood how they translate.**

Result - Greater complexity, uncertainty, risk

2. Framework for strategic analysis

*Chicken, tortoise or hare
(or combination)*



In this environment need:

- **Continual appraisal of surroundings & opportunities (macro, meso and micro levels)**
- **Envision range of strategies from “push” to “pull” (see chicken, tortoise, hare)**

Analyse and scan environment at 3 levels:

- 1. Wider environment – regulatory, social, ICT change, geography**
- 2. Industry-group – relationships, competitors, alliances, customers, ICT standards, software**
- 3. Organizational – management, resources, expertise, ICT capability**

Strategies:

(1) Chicken-and-axe

- Reactions to external forces
- Must do to stay in business eg GST compliance, privacy legislation, Aust govt central mandates
- This type more common than recognized



(2) Tortoise

- **Steady, incremental advance**
- **“Continuous improvement”**
- **Cost savings, efficiencies**
- **Many examples of this type**



(3) Hare

- Truly innovative, strategic-positioning e-commerce initiatives
- New business models, new products
- Not as many genuine successes
- How does it apply to insurance?



Strategy envisioning



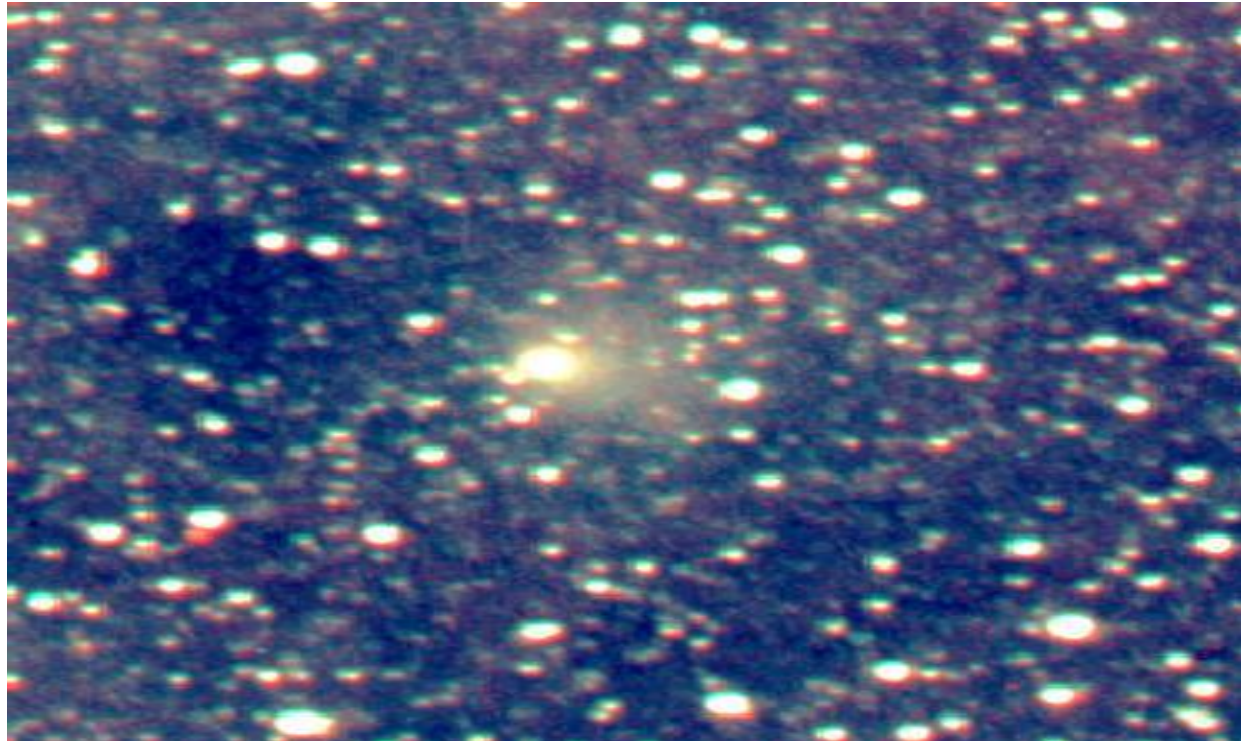
Matrix of strategies -
allows for scenario and
ideas generation.

Consider how/if they
apply to insurance?

ENVISIONING MATRIX

Type/ Level	<i>Chicken & axe</i>	<i>Tortoise</i>	<i>Hare</i>
<i>Wide environ- ment</i>	Forced by legislation	Extend systems with new ICT	Leverage off legislation (bank)
<i>Industry</i>	Forced by industry partner (EDI)	Save costs (outsourcing)	Alliances (new products, business)
<i>Organ- ization</i>	Old system dies	Internal efficiencies, improve systems	Build on core competencies, strengths

3. Insurance e-commerce environment



Reference: NOIE (2001)

Wider environment

- **Increasing use of Internet:**
 - 52% households online
 - 64% adults purchase online (NOIE, 2002)
- **Concerns about security and privacy**
- **Continuing technological change (eg mobile commerce)**
- **Customer expectations: eg 24 hr service**

- **Regulatory changes:**
 - Tax
 - **CLERP 6/FRSB (2002)**

Industry environment

- **Convergence, mergers, acquisitions**
- **New, non-traditional entrants (eg telcos)**
- **Intense competition**
- **Low profitability**
- **Need for customer focus**
- **Fragmentation of representation**

- **Some cooperative moves – Compliance Reference System (2000) (APIR Systems, IFSA, ASIC, ACCC, NOIE) – for standards & protocols**
- **Overseas competitors – US companies more advanced**

Organizational environment

Needs individual analysis, but likely:

- **Poor profit performance (less than 2% on average over last 10 years)**
- **Lagging financial services in use of e-commerce**
- **Good brand names**

- **Substantial customer databases**
- **Virtual product (an information good)**
- **Complicated underwriting processes and products**
- **Older workforce**
- **Legacy systems**
- **Low frequency transactions**

4. Strategic business models for insurance?



Generic strategies (e-business models)

- **Online sales & promotion**
- **Digital exchanges**
- **Content offerings**
- **Infomediaries**
- **Affiliation.**

But more than this, see examples following.

Chicken-and axe strategies

Macro-level:

- B2G requirements?

Meso-level:

- Industry competition forces:
 - Necessary to have web site for Sales & Promotion.
 - In 1998, 86% of largest companies had web sites
(Costello & Tuchen, 1998)
- Check site rankings with <http://www.gomez.com>

Micro level:

- **Necessary to link legacy systems to Web for payments, account management**

Tortoise strategies

Macro level

- Incremental use of new ICT – Data mining for price elasticity and Customer Relationship Management

Meso level

- Lower costs through supply chain management eg e-procurement . NOIE (2001) estimates 10% cost reduction. eg NRMA, CorProcure with AMP, ANZ

Micro level

- **Lower transaction costs and costs of production. NOIE study suggests cost savings of 50-70% through e-commerce.**

Hare strategies

Macro level

- **ICT infrastructure changes? Mobile computing? Broadband?**
- **Leveraging off legislation changes?**

Meso level:

- **Alliances, virtual integration, affiliation, relationships with agents, aggregators, portals, marketplaces**

www.echoice.com.au

www.insbroker.com.au

www.finsure.com.au

www.insuranceexpress.com.au (Telstra – Sunrise project))

- **Portals:**
 - NineMSN/InsuranceWatch (<http://www.ninesm.com.au>)
 - Yahoo Australia (<http://au.yahoo.com>)
- **Infomediary:**
 - iSelect (<http://www.iselcet.com.au>)
- **Affiliate model**
 - ClixGalore (<http://www.clixgalore.com.au>)

- **Leveraging off industry developments eg SuperEC collaborative initiative**
- **New insurance specific technology eg Insfin Jukebox Technology**

Micro level:

- **Re-engineering processes eg AMP Planner Portal, CRM tool for sales staff (2001)**
- **New product lines eg insuring risks from new technology – hacking, failures eg Marsh Pty Ltd - NetSecure**
- **New services – financial, workers' compensation handling**

5. Discussion

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