Insurance 2.0 – can you see it?

Ready?

In a world where news is presented by holograms, where touchless banking technology is beginning to appear, where even our clothes can have technology built in, what is going on in the insurance industry?

Why does our industry appear to be behind the curve in its use of innovation? Will we always be slow to join the party?

It's a fact that clever use of established technologies has changed our industry in the past, for example with the growth of the direct telephony based operations. Are we on the cusp of another such change? Will new application of technologies such as Web 2.0 drive that change? Or will changing demographics force us to reconsider how we operate?

Is the insurance world ready? Let's look at the evidence:

Set?

Most of us have some experience of buying online – perhaps books, CDs, flights. But have you read an online review from another customer, or even contributed one yourself? If so you are already active in a Web 2.0 environment.

> *"Web 2.0 is the second generation of Internet-based services that let people collaborate and share information online in previously unavailable ways."*
>
> Wikipedia, early 2006

In the early days of the Web, content was mostly read-only and provided by businesses to individuals who wished to access it online. Then, individuals began creating and submitting their own content (e.g. book reviews on Amazon, hotel reviews on Trip Advisor). This developed further as Web services (services that can be accessed over the Internet and executed on a remote system) began to emerge. This interactivity, enabling user generated content, resulted in Web services which improved the more frequently they were used. This way of using Web technology is now commonly referred to under the umbrella term Web 2.0.

The Gartner Hype Curve, which offers a snapshot of the relative maturity of technologies, IT methodologies and management disciplines, shows rapid advancement of Web 2.0 during the last few years (please refer to the charts opposite).
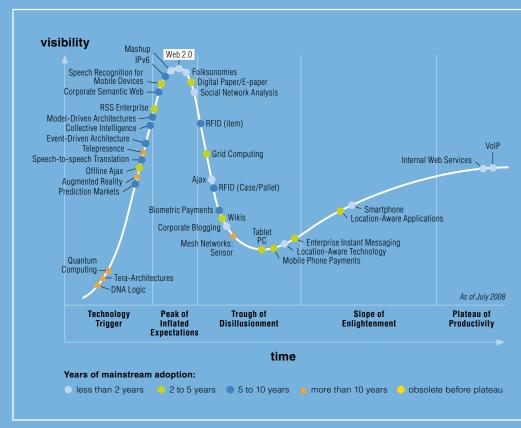
If this continues, and the number of early adopters in the business environment indicates that this is a real possibility, then Web 2.0 is likely to develop into a mainstream business tool in the very near future.

One estimate[1] puts global users, made up of content consumers and collaborators, at more than 1 billion and growing.
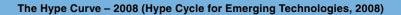
Web 2.0 also introduces the idea of running public 'betas', namely new, interesting software tools that enable content to be continually enriched, refreshed and renewed and ultimately deliver greater value to the user. Google Calendar, is one such example, where data from more than one source is combined into a single integrated tool, providing agility in the development of new integrated services.

Go?

So what are the opportunities in insurance? Do we have the building blocks already in place to start this and are we ready culturally? Could you deliver a beta to the public? Or will others grab the advantage?

The Hype Curve

visibility

Mashup
IPv6
Web 2.0
Speech Recognition for Mobile Devices
Corporate Semantic Web
Folksonomies
Digital Paper/E-paper
Social Network Analysis
RSS Enterprise
Model-Driven Architectures
Collective Intelligence
RFID (item)
Event-Driven Architecture
Telepresence
Grid Computing
Speech-to-speech Translation
Offline Ajax
Augmented Reality
Prediction Markets
Ajax
RFID (Case/Pallet)
VoIP
Internal Web Services
Biometric Payments
Wikis
Corporate Blogging
Tablet PC
Smartphone
Location-Aware Applications
Mesh Networks: Sensor
Enterprise Instant Messaging
Location-Aware Technology
Mobile Phone Payments
Quantum Computing
Tera-Architectures
DNA Logic

As of July 2008

| Technology Trigger | Peak of Inflated Expectations | Trough of Disillusionment | Slope of Enlightenment | Plateau of Productivity |

time

Years of mainstream adoption:
○ less than 2 years ● 2 to 5 years ● 5 to 10 years ▲ more than 10 years ● obsolete before plateau

The Hype Curve – 2006

The Hype Curve – 2008 (Hype Cycle for Emerging Technologies, 2008)

visibility

Green IT
Social Computing Platforms
Video Telepresence
Microblogging
3-D Printing
Cloud Computing
Surface Computers
Augmented Reality
Mobile Robots
Solid-State Drives
Behavioural Economics
Public Virtual Worlds
Web 2.0
Service-Oriented Business Applications
Virtual Assistants
RFID (Case/Pallet)
Basic Web Services
Location-Aware Applications
SOA
Tablet PC
Electronic Paper
Wikis
Social Network Analysis
Idea Management
Corporate Blogging
Context Delivery Architecture
Erasable Paper Printing Systems

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Source: Gartner (July 2008)

Social Networking

The creativity of the crowd and the accessibility of the interactive Web are now exploding into a proliferation of Web services.

Web 2.0: The Second Coming of the Web

creative commons · blogger · collective intelligence · Pandora · YouTube · LinkedIn · Zopa · Goowy · RIA · eyeOS · Drupal · RSS · wikis · the long tail · MySpace · AJAX · SaaS · flickr · Zimbra · Google · REST · Amazon · **Web 2.0** · wisdom of crowds · data driven · bebo · blogs · Everyzing · user-generated content · eBay · folksonomy · facebook · ProgrammableWeb · StumbleUpon · ShoZu · LimeWire · ruby on rails · LAMP · viral marketing · Wikipedia · iTunes · Ning · mashups · basecamp · webtop · wetware · tagging · del.icio.us · perpetual beta · microformats · podcasting · Meebo · social networking · SalesForce

Some of these Web services are changing our world, the way we interact with each other, the way we discover things, the way in which we communicate. These are the Social Networking services. At its simplest, a social network is a group of people brought together by a common interest.

Social networking within Web 2.0 enables people to connect or collaborate through computer-mediated communication and to form online communities.

To help decode the jargon…

Social Network	"Social" distinguishes it as a human network, as opposed to other types of networks (such as computer or telephone network).
Social Networking	The act of reaching out and connecting to others (and potentially through others).
Social Networking Software/ Site/Application	A product or service that allows individuals to connect to help build a network, leverage an existing network, or both. Often they have a niche or area of focus such as business connections (LinkedIn), Friendships (Friendster, Friends Reunited, Orkut), academia (Facebook), etc.
Social Software/Social Computing	Applications that enable mass collaboration (as opposed to communication software such as e-mail).
Social Networking Tools	Anything that helps leverage or build a network (or the ability for people to find and connect with it). Examples include blogs, wikis, social bookmarking.
Collaboration Tools	Technology that enables efficient collaboration. Typically enabling a defined group of people to work together.
Social Network Analysis	A set of methods and statistics that shows the underlying relationship between people – like an "organisational x-ray".

What is Social Computing?

Social networks Technology that allows users to leverage personal connections.	Linked in. facebook. orkut friendster. myspace® a place for friends	**P2P file sharing** Sharing media files over a network powered by users who act as both client and server.	BitTorrent
RSS An XML standard that lets users collect and read content feeds.	Bloglines FeedBurner YAHOO! newsgator Pluck.	**C2C e-commerce** Buying and selling among consumers via the Net.	amazon.com. ebaY craigslist uBid
Open source software Publicly available software that can be copied or modified without payment.	The Apache Software Foundation OpenOffice.org Linux MySQL	**Comparison shopping sites** Sites that allow consumers to compare products or services.	PriceGrabber.com Comparison Shopping Beyond Compare. shopzilla Froogle BETA
Blogs Online diaries of text, photos, or other media.	GAWKER Blogger TypePad WEBLOGS.COM msn Spaces xanga	**Podcasts** Online audio or video that users can download to a device.	Podcast Alley ODEO PodShow Juice
Search engines Services that find Web content based on user-specified criteria.	YAHOO! msn ASK Jeeves Ask.com AMERICA Online Google Technorati	**Wikis/collaboration software** Shared publishing software or sites that allow users to edit content.	go Basecamp groove NETWORKS Socialtext Jotspot WIKIPEDIA
User review portals Web portals that allows users to search for peer reviews on a product or service.	tripadvisor® get the truth. then go.™ reviewcentre informed choices Insider Pages cnet CNET.com Game Rankings	**Tagging** Metadata assigned to items like photos or Web pages to facilitate searching and sharing.	bea del.icio.us digg shadows flickr

Source: www.micropersuasion.com/2006/03/institutional_p.html

The majority of financial service companies already have a Web presence, usually in the form of online information or even online quotations, but these are largely standalone, information pull sites.

More active Web participants have established a presence within the popular social networking sites such as Facebook, Twitter and MySpace.

Source: www.facebook.com and www.myspace.com

Others have gone even further, moving toward establishing brand communities where they effectively initiate and host new social networks.

ChangeEverything.ca (www.changeeverything.ca) has been developed by Vancity, a Canadian Financial Services Company. It is a social networking site providing a forum for members to share goals and ideas relating to life-changing decisions they have or are planning to make.

Forums.allstate.com (www.forums.allstate.com) is an online community where you can share you thoughts and opinions about various topics and see what other users have to say.

Some social networking sites have advanced to the point where they have developed into the arena of 3-D Internet. These sites provide online environments with an interface resembling a computer game, in which your avatar[2] can walk around in a real life setting, build virtual buildings and machines, socialise, exchange ideas with others – even do business.

Second Life is probably the best known example. It is an Internet-based virtual world development. The free 'Second Life Viewer' enables users to interact with each other through avatars, providing an advanced level of social network service. Users, or 'residents', can explore, meet other residents, socialise, participate in individual and group activities, and create and trade items and services with one another, while travelling freely throughout the virtual world (the grid).

Some Second Life statistics…

During December 2008
Residents numbered over 16.5m
97.5m land transactions were undertaken
Number of customers spending money in world was 433k
Total transaction numbers were over 21m
The second world currency (Linden dollar L$) to US$ exchange rate was steady around the 262:1 level
Total L$ supply was L$5,514m

Some financial service companies have created their own virtual worlds.

Stage Coach Island – Wells Fargo Bank has created a virtual world, where users can explore the island, connect with friends, make new ones, and at the same time learn smart money management.

Planet Orange – ING has created a free financial education site for kids, parents, and teachers. It provides a simple and fun way for kids to learn about the importance of saving as friendly 'tour guides' show users around the planet where they learn the value of money, how to set a budget, gain understanding of credit, and to build savings goals for the future.

Fascinating – but why should insurers care?
…Because this is changing the way the population is behaving – that includes your customers, competitors and your employees.

Your customers are changing

Looking forward just a few years, to 2020, studies indicate significant differences in behaviour within the population using financial services.

Insurance Customers in 2020: Behavioural Changes

Ages in 2020	Gen Zers (8-25)	Gen Yers (26-43)	Gen Xers (44-54)	Boomers (55-74)	Seniors (75+)
Value in 2020	20% of population 5% of assets	20% of population 10% of assets	15% of population 15% of assets	30% of population 35% of assets	15% of population 35% of assets
How will they seek protection?	• Demand that loyalty be earned early • Fit products into hard working, high consumption, minimal savings lifestyle • Expect technology sophistication	• Expect personal control and high level of service • Want products that support major life events (moving, marriage) that trigger financial decisions	• Taking longer-term approach • Demand support for wealth-building via investments, educational savings, retirement assets	• Demand multi-channel service options • Seek support for transition to wealth preservation, such as transfer and retirement	• Seek products that match their conservative, cost-conscious approach • Want high-touch service and advice
	←— **Radical**		**Behavioural Change to 2020**		**Gradual** —→
How will insurers court future policyholders?	• Offer online services, basic products • Grow with customers who are willing to share info • Provide individual attention with service and product customisation	• Offer consultative, collaborative approach to sales, service • Meet convenience expectations • Settle on 1-2 channels • Avoid marketing that relies on behavioural assumptions	• Offer non-traditional products to satisfy life stage needs • Provide greater access to onsite and remote specialists • Provide high multi-channel use as they transition to later life stages	• Provide preservation-based products, services to largest, richest segment • Enhance multi-channel delivery experience, customised care	• Enhance transparency in customer service • Offer consultative approach to sales • Enhance branding for security, advocacy

Note: Percent of population and percent of total assets controlled are represented only for people aged 18 and older
Source: Forrester Research; IBM Institute for Business Value

Insurance is, by nature, not the most exciting product for customers. Insurers see themselves as an industry with low levels of customer interest and interaction (annual renewals rather than daily account monitoring). But people care a lot about insurance subjects such as health, financial security or risk coverage, which suggests that with imagination, more engaging propositions can be conceived.

Even today, as shown by recent CII research, 30% of the IPOD[3] generation uses the Internet for banking and 15 - 20% to find insurance.

Does this challenge the "push only" approach to product design and marketing which has so long been the industry paradigm for so long?

Insurers who take into account the varied attitudes, values and resulting actions found in today's markets will have an edge in reaching tomorrow's customers and retaining them, despite ever fiercer competition.

Your competitors are changing

The action is not reserved only to the traditional players. Web 2.0 has enabled conception and creation of new organisations which provide a direct threat to traditional financial services companies – in some cases, by going back to basics.

ZOPA is a UK based company providing an online, person to person lending service, allowing people who have money to offer to lend it to those who wish to borrow, thus avoiding the need to use banks at all.

Zopa

Source: http://uk.zopa.com/ZopaWeb/

Launched in 2005, ZOPA has received positive coverage in the press, has over 100,000 members and has expanded to offer the service in a number of different countries. On the day of writing ZOPA had circa £650k available for borrowing and annual return for lenders in the previous twelve months amounted to 8.9%.

So, could a similar person to person service emerge in retail insurance?

Do traditional insurance brands have any currency in the online environment? Certainly, traditional routes to market look less effective among the IPODs.

What about your own organisation?

Your people are changing

A four generation workforce has emerged with differing expectations about work.

The Changing Workforce

	Traditionalist	Boomer	Gen X	NetGen
Training	The hard way	Too much and I'll leave	Required to keep me	Continuous and expected
Learning style	Classroom	Facilitated	Independent	Collaborative and networked
Communication style	Top down	Guarded	Hub and spoke	Collaborative
Problem-solving	Hierarchical	Horizontal	Independent	Collaborative
Decision-making	Seeks approval	Team informed	Team includes	Team decides
Leadership style	Command and control	Get out of the way	Coach	Partner
Feedback	No news is good news	Once per year	Weekly/daily	On demand
Technology use	Uncomfortable	Unsure	Unable to work without it	Unfathomable if not provided
Job changing	Unwise	Sets me back	Necessary	Part of my daily routine

Source: Lancaster, L.C. and Stillman, D. When Generations Collide: Who They Are. Why They Clash.
How to Solve the Generational Puzzle at Work. Wheaton, IL. Harper Business, 2003.

There are many ways in which Web 2.0 can support connections within your organisation and enhance your employees' experience of being part of your team.

Specialist peer group discussion forums can provide ideas on problem solving.

On demand training can be delivered in a way that works for all of the types of employees. Applications used in this way include:

- *Creation of highly compelling distance learning environments*
- *Connection with experts and teachers from around the world*
- *Ability to train, rehearse, role play in virtual world*
- *Simulation of real world environments for "walk-throughs" or re-enactments*
- *3-D models, immersive environments recreate real life and simplify the complex*
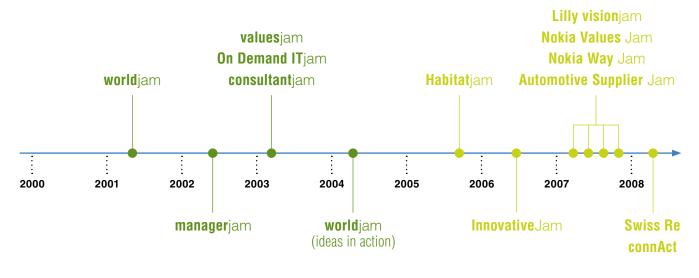
Companies that get talent management right will build complex, talent-based competitive advantage that competitors won't be able to duplicate easily – if at all.

But it's not just about talent management.

A recent IBM study[4] showed that insurance Chief Executives believe that innovative companies grow faster and have better competitive positioning in the market. 75% of these CEOs indicated that collaboration was important to innovation and top sources of innovation were employees, business partners and customers.

There is an increasing popularity in use of Jams to help drive innovation

Lilly visionjam
Nokia Values Jam
valuesjam **Nokia Way** Jam
On Demand ITjam **Automotive Supplier** Jam
worldjam **consultant**jam **Habitat**jam

2000 2001 2002 2003 2004 2005 2006 2007 2008

managerjam **world**jam
(ideas in action) **Innovative**Jam **Swiss Re
connAct**

● **Internal**
● **External**

Source: IBM – John Murphy's presentation

In a world where innovation is global, multidisciplinary and open, Jams and other Web 2.0 collaborative media open up tremendous possibilities for collaborative innovation. Jams provide an Internet-based platform for enterprisewide brainstorming, connecting large populations of individuals across industries, disciplines, and national borders. Innovative organisations are using such technologies to bring together different minds and different perspectives to discover new solutions to long-standing problems, promoting collaboration both within their organisation and more broadly with their business partners and suppliers.

And there are downsides!

So the good news is that these changes create and, in the case of technology, enable access to new markets.

There is also potential to reduce costs through innovation and manage your people in ways which will foster improved knowledge, performance and even loyalty.

But, of course, there are potential downsides.

One such issue is that insurers can no longer control the information which is published. Dissatisfied customers have multiple, well read forums to air grievances, reasonable or not. Disgruntled employees can damage brand without even appreciating that they are doing so.

Do you know what is being said about your company on Facebook, MySpace or even YouTube?

Although rare, at their most extreme, active attacks on brand can be pursued and can have gained some momentum long before you become aware of anything.

Specialist vendors monitor the Internet for these offences and initiate enforcement action both at the ISP level and in the physical world. For example, MarkMonitor is a niche vendor offering services in domain management, online trademark protection, online channel monitoring, and anti-phishing. Larger service providers also offer alerting services, such as IBM's own COBRA (Corporate Brand and Reputational Analysis and Alerting Service).

A second downside is the phenomenon, or some might say, cult of Internet trust.

Consumer advice sites are often more trusted by larger sections of the population than traditional financial advisors. What if the information provided is misleading or incomplete? Some sites, which are closer to social networking rather than formal advice providers, contain incorrect, incomplete or inappropriate information.

With the extensive, and sometimes overwhelming amounts of information available, the financial services consumer needs trustworthy and reliable information to help with their choices – now more than ever.

How's the industry reacting?

Analysis of IBM's 2008 Global CEO Study[5] and the themes that emerged from it reveal that insurance executives recognise the essential nature of change and believe that they need to invigorate their innovation agendas.

But while in banking we are seeing some innovation in the early adoption of technologies, in insurance there is very little evidence of the aspiration being brought to reality.

Is this complacency? After all, we are talking about long established companies who may perceive an interest in maintaining the status quo. Or is it that these organisations do not grasp the potential, or the threat, posed by the changes.

Regardless of the reasons, the changes are too significant to ignore:

- *Disintermediation is happening*
- *Not listening to your customers can have a high cost in terms of lost business, reputational damage or even fines from the regulators*
- *Who needs traditional channels when future customers will seek out what they need?*
- *Who needs traditional insurance companies – is a "ZOPA" insurance organisation just around the corner?*

So what should insurers do?

At a minimum, insurers should do what's easy.
The technology is proven and the potential is within
grasp today.

- *Connect with your people*
  - *Use collaboration tools to establish specialist forums
    (maybe based on skills, special interest groups or top
    talent) – creating a safe environment for genuine
    sharing of views and ideas*
  - *Ask for innovative ideas – then demonstrate
    commitment by putting money behind the best*
  - *Skills development and management – investigate
    on demand training and help for your people*

- *Connect with your market*
  - *Consider how you want to appear online*
  - *Perhaps provide easy access to money guidance
    on social networking sites*

- *Protect yourself*
  - *Keep an eye on what's being said about you online*
  - *Undertake active brand protection – answering your
    critics online can turn a grumble or complaint into
    an opportunity to demonstrate your intent to listen to
    your customers and to be seen resolving their issues*

- *And keep an eye to the future*
  - *If you can't, or don't want to be first, are you ready
    to be second?*
  - *Monitor actively what other businesses are doing
    in this space – not just your direct competitors – to
    make sure you are well aware of what is competing
    with you for your customers' interest and loyalty*
  - *Get your internal future evangelists in place
    – encourage them to challenge the norms*
  - *And try something out – learn by experience,
    not just by observation*

In the current climate, short term concerns relating to
issues such as capital adequacy may be dominating the
insurance agenda but the risk of ignoring this wave of
change is potentially to go the way of the dinosaur.

Have a view on this? Why not share it? That's what it is all about, after all. Let us know what you think.

Visit CII and IBM's Future Factory Web Discussion Forum:
www.cii.co.uk/pages/news_events/futurefactory.aspx

Want to know more about what IBM is doing in Web 2.0?
ibm.com/software/uk/info/web20/index.html
ibm.com/software/uk/itsolutions/flexible
www.youtube.com/watch?v=7zT8OWQRzfg

Contact panel:
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akim@ca.ibm.com

IBM.

[1] *Dion Hinchliffe's Web 2.0 blog*

[2] *An **avatar** is a computer user's representation of himself/herself or alter ego, whether in the form of a three-dimensional model used in computer games, a two-dimensional icon (picture) used on Internet forums and other communities. Source: Wikipedia*

[3] *IPODs: 18 -34 year olds in the UK: Insecure, Pressurised, Overtaxed and Debt-ridden. Source: Money's too tight to mention: will the IPOD generation ever trust financial services? A report by Reform and the Chartered Insurance Institute, October 2008*

[4] *IBM Global CEO Study, 2006*

[5] *IBM Global CEO Study, 2008*