

Closing the Circle: the Integration Imperative

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By Robert Fripp, April 2000

It is tough to tell a circular story in a straight line. However, we confront that situation when dealing with change in the insurance industry today. The major components are as follows: changing competitive dynamics are sensitive to shifting customer needs and expectations; in part, those expectations drive regulatory change; on the other hand, expectations and regulatory changes respond to, and are driven by, rapid technological evolution, including the growth of business via the Internet. That returns us to aggressive competitive dynamics and shifting consumer needs. My challenge is to cut into this circle to analyze your industry's dynamics sequentially.

Where better to open than with open markets? Worldwide, relaxed regulations are removing national borders as barriers to competition. The World Trade Organization leads the way, with regional treaties such as NAFTA and EU playing lesser roles. We should also credit many national governments for dismantling internal barriers to trade.

We are researching three key aspects of the new scenario: the ease with which a firm established in another field can enter the insurance business in the region where it already operates; the ease with which foreign insurance vendors can enter the U.S. market; and, the ease of doing business in a given country, having regard to domestic regulations. Measuring countries against those yardsticks reveals vastly different environments for insurance vendors.

However, all are marching in the same direction. A fascinating finding emerges from IBM's joint research with the Tower Group. We compared protected versus open insurance markets, starting in 1996 and ending with 2005. In 1996, 45% of profits came from protected markets. As borders fall, that figure dropped to 25% in 2005.

So, prepare to compete in an open market. As always, that situation opens doors to both challenge and opportunity. Falling barriers expose insurers to rapid changes. On the other hand, the fast and the fit will keep abreast of the pace of deregulation, carving themselves new markets.

One factor forcing the pace of change in favor of e-commerce is the recent advance of electronic "four-corner trust models." Engineering and research companies have transmitted technical drawings and designs over the Internet for years. However, security requirements delayed the exchange of commercial documents. Until now.

Limited space prevents me describing four-corner trust models. Suffice to say that, by the end of 2001, two hundred of the world's major financial institutions will subscribe to this technology. A combination of public key infrastructure (PKI), PIN numbers and smart cards will let the customers of these financial institutions enjoy absolute confidentiality in the electronic transfer of sensitive commercial documents. When that happens, expect the same rush to electronic data interchange (EDI) in commercial sectors that drove engineering companies such as Boeing into "paperless" aircraft design.

I mentioned that competitive advantage will go to the fast and the fit. European insurers are already well-rehearsed, having been involved in several bruising mega-mergers in recent years. American insurers' best defense is to be well armed with technology and systems that are thoroughly integrated, scalable and capable of adapting fast to new business conditions.

Those conditions include the recent emphasis on building strategic partnerships. In the past, the insurance value chain was largely confined to the relevant carrier. Now, that chain is becoming a value network, as new business partnerships coalesce. For these to be empowered, partners must integrate their IT systems, with special emphasis on middleware.

American insurers already have one strong shield and partner fighting their corner. The role of ACORD is changing from standardizing paper forms to suggesting standardized technologies. Many converging forces suggest that there is an urgent need for industry-wide system integration: the need to secure competitive advantage; the widening value net; new partnerships requiring standardized IT; new customer channels; the trend to business via the Internet. Finally, there are the opportunities offered by newly opened markets as well as challenges from competitors moving into that space. As the standards body for the insurance industry, ACORD is currently working to migrate member firms to XML for business to business Internet-driven transactions. In both defense and attack, ACORD's initiative in striving for industry-wide integration and common technical standards makes excellent sense.