EQUINIX®

The Insurance Industry on the Cusp of Digital Disruption

Driving Fundamental Change with
Interconnection Oriented Architecture®

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Introduction

The insurance industry can no longer
afford to be reluctant to change.
Confronted with digital-based business models
that are aggressively entering the market
with new offerings, and an ever-increasing
and hard to keep-up-with customer demand,
insurers need a plan if they are to thrive
in the digital era.

On top of these challenges, the COVID-19 pandemic is now pushing
insurance businesses even further toward a digitized future
by complicating access to companies' assets in their physical
premises while their employees are working from home.

This document explores the current state of the insurance industry,
addressing the most common challenges faced by providers
and highlights ways in which they can build a digital business
continuity plan in the face of unpredictable events.

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Obstacles Between Insurers and a Digitized Future

Today, all sections of the insurance market are facing both business and technology-related challenges created by the lack of information integration, customer service, underwriting and claims processing procedures.

The need for increased IT investment and digital security is growing, while at the same time, the COVID-19 situation is disrupting medium-term business plans by impacting on pricing, on clients' ability to buy, and through unanticipated claims patterns that ultimately affect profitability. That, in turn, means pressure on IT investment which is making it hard for the industry to seize digital opportunities as they arise, and maintains technological constraints such as:

- Failing to meet customer expectations

- Inability to fully leverage data on customer behavior

- Products that are not fully consumer-friendly

- Low levels of customer satisfaction

Meanwhile, the younger generations have more power over brands than ever before, as they are always connected and expect flawless digital experiences every time they interact with a business. This sets the bar very high in terms of customer service, making the days where it was acceptable for an issue to be resolved in weeks seem like a long-gone historical memory.

Keeping abreast of these expectations puts pressure on insurance to increase their IT budgets, start to leave legacy systems behind, and invest in new technology that can make digital insurance capabilities a reality.
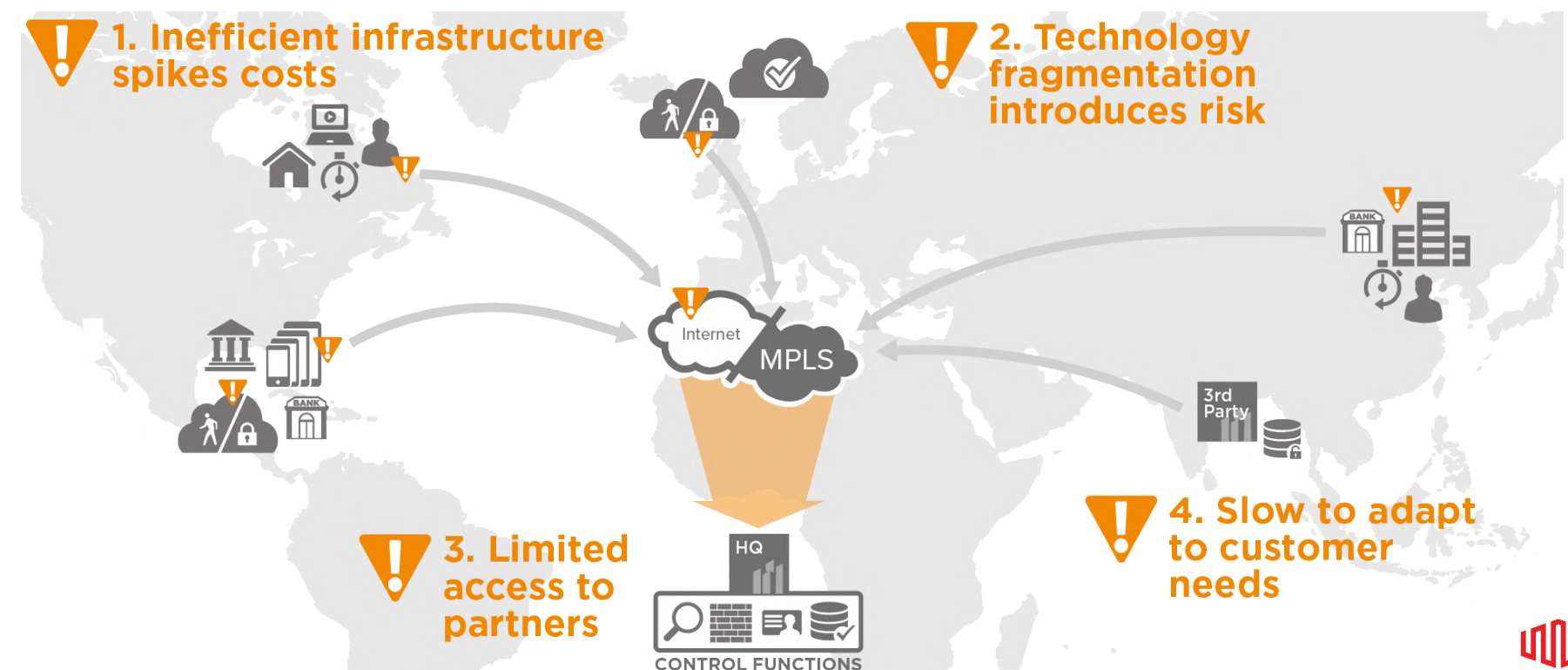
To enable digital transformation, both reinsurance and insurance firms need to re-architect their IT infrastructures. With its multiple shortcomings, traditional, siloed IT can no longer keep businesses competitive and relevant.

Although the majority of insurers and reinsurers agree that they must innovate at an increasingly rapid pace to compete in a cutting-edge future,[1] new technology adoption is still slow compared to other service-based industries. Furthermore, much of the industry is still rooted in traditional operational models that use legacy software that is still vital for daily processes, adding to the challenges that established providers already face. And beyond that, the ever-increasing impact of regulation presents a further obstacle to digital change.

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What Stands Between Reinsurers, Insurers, and Digital Insurance Capabilities?

On the other side of the fence, living in a digital-first reality, Insurtech startups have entered the market with sophisticated and innovative technologies. This enables them to meet real-time demand that traditional infrastructure cannot, especially in the value chain distribution section.

Then there is the issue of resiliency. In the last few months, the insurance industry has been struggling to tackle the new obstacles that emerged from the COVID-19 pandemic. Potentially to the surprise of many insurance outsiders, the industry's resiliency plans were largely effective in terms of keeping firms operating and serving customers, but did reveal gaps where access to physical assets was essential, yet unavailable to employees. Such a situation will need a fuller digital response in the future if greater problems are to be avoided.

1. Inefficient infrastructure spikes costs

2. Technology fragmentation introduces risk

3. Limited access to partners

4. Slow to adapt to customer needs

Internet

MPLS

3rd Party

BANK

HQ

CONTROL FUNCTIONS

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Right now, we see such threats delivering the potential for unprecedented, catastrophic loss in terms of geographic distribution, range of affected business lines, and scale of disruption."[2]

James Maudslay
Global Head,
Insurance, Equinix

Sheppard Narkier
Sr. Principal SME - Platform
& Product Marketing, Equinix

[2]https://blog.equinix.com/blog/2020/06/10/insurance-and-digital-disruption-the-paradigm-shift

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Insurance Sustainability Is Challenged. Yet There's Still Hope: Technology

The operating barriers to a sustainable existence that have arisen in 2020 have been largely overcome with increased secure communications and the implementation of online collaboration tools that can facilitate uninterrupted and efficient out-of-office business activities.

Yet these solutions are bandwidth-hungry, and to act as long-term solutions will require an improved architecture to work at peak efficiency. For the medium term, current legacy systems will not be able to satisfy the demands and needs of the modern, digital-savvy customer.

All of this adds up to a more distributed IT architecture that will need to combine legacy, current and contemporary technologies, but will also challenge the existing deployments that exist across the industry. With the new need for a distributed, interconnected architecture, maintaining the status quo would lead to:

- Increasing data security and compliance risks

- Having a negative impact on time to market

- Making real-time data insight generation difficult to achieve

- Putting a toll on business growth

Although modernizing and re-architecting IT on its own would be enough to maintain operations, it doesn't offer many opportunities for progress in the long run. This is only the first step toward executing a sustainable business future.
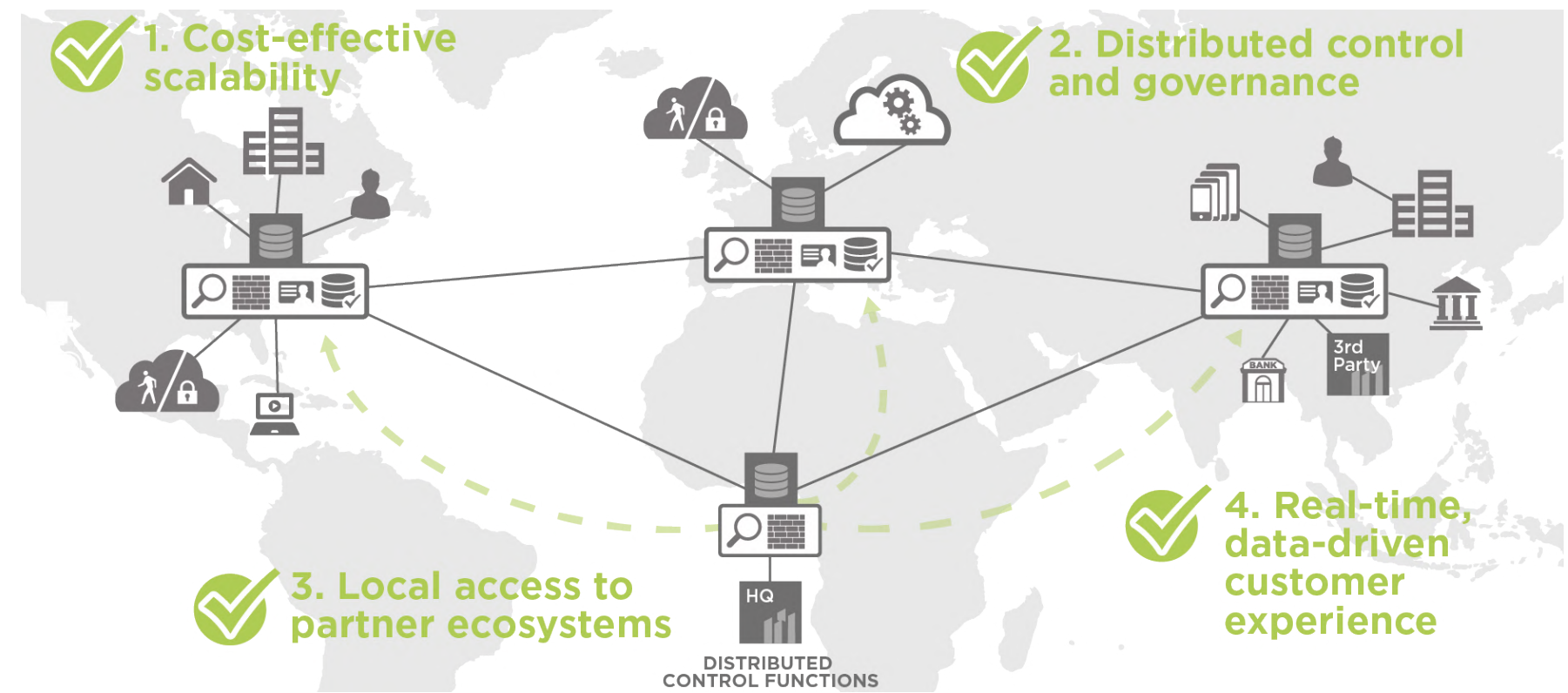
What's next?

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Incorporating Vital, New Insurtech Services with Interconnection Oriented Architecture (IOA)

If insurers are to truly leverage the current and future services expected of Insurtech, they will need to alter their business models to fully accommodate digital, as well as re-architect their IT infrastructure to allow for distributed control, interconnection between stakeholders, and optimum use of software-defined networking and hybrid cloud. These requirements are exactly what IOA—an Interconnection Oriented Architecture—was designed to address.

But What Exactly Is IOA?

IOA is a proven architectural framework that aims to help enterprises and service providers to:

- Bring apps and data closer to customers, employees and shareholders.
- Regionalize services globally.
- Meet or even exceed the ever-growing digital demand.
- Partner with more than one cloud and SaaS provider seamlessly.
- Solve the problem of latency.

1. Cost-effective scalability

2. Distributed control and governance

3. Local access to partner ecosystems

DISTRIBUTED CONTROL FUNCTIONS

4. Real-time, data-driven customer experience

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The Key to Becoming
a Fully Digital Insurer

Today, thousands of businesses successfully leverage IOA
across Platform Equinix® to accelerate digital transformation
while putting an end to siloed IT delivery architecture.
Moreover, this approach also boosts performance
and enhances security throughout the ecosystem.

IOA is the tool providers need to successfully navigate
these murky, whirling waters, since it offers them
the necessary capabilities to compete against
Insurtech companies without being disrupted.

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The Paradigm Shift

Traditionally, the insurance industry has operated through a largely reactive, financial response to unforeseen events—in effect paying to return an insured to the position they were in prior to the loss.

However, the recent COVID-19-related situation has shown everyone that this approach, while certainly fulfilling the obligations of insurers, may no longer be the optimum solution to the loss. Given the capabilities of new technology, it is now possible for insurers to participate in loss prevention or risk management, alongside their traditional role as payers of claims.

To do this, insurers need to use the internet of things (IoT) to gather current operating data, combine that with data from past experience, and then use data analysis driven by artificial intelligence to draw usable conclusions from the available information. Insurers can then put their data to work within a proactive loss prevention/reduction strategy that can help minimize unforeseen financial losses, perhaps returning them to a position of trusted advisor to their clients.

This paradigm shift also calls for a different insurer to Insurtech provider relationship—one that enables strategic change.

Since 2012, Equinix has stood by the side of insurance providers looking to adapt and switch from the traditional insurance mindset, offering them the means to adopt state-of-the-art technology and multicloud infrastructure that helps them meet their customers and partners at the digital edge.

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The insurance industry faces new challenges,
and, if not already on the road, is now being forced
to embark on a complex digital journey that will ultimately
leave monolithic, legacy systems behind for good.

Younger generations expect fast and seamless digital experiences.
Insurtech invades the market's value chain, challenging and disrupting
the established providers, while the ongoing pandemic puts a strain
on traditional siloed IT. Slow service delivery and products that are not
specifically tailored to customers' needs are not an option anymore.

A fundamental change in mindset, technology and operating models
is vital—and private interconnection is the key. Equinix helps providers
willing to employ digital means to help put an end to unresponsive product
development and declining customer satisfaction.

IOA and Platform Equinix are both contributing to the industry's digital
transformation, helping providers meet the modern ever-connected,
always-on and increasingly demanding client base.

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About Equinix

Equinix is the world's digital infrastructure company. Digital leaders harness our trusted platform to bring together and interconnect the foundational infrastructure that powers their success. We enable our customers to access all the right places, partners and possibilities they need to accelerate advantage. With Equinix, they can scale with agility, speed the launch of digital services, deliver world-class experiences and multiply their value.

Embrace Digital Transformation With **Equinix**

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