Top insurance industry issues in 2021
Ecosystems
Introduction

For insurance carriers, size has long been an advantage. To achieve scale and manage complex, diverse pools of risk amid ever-intensifying regulation, insurers have had to commit tremendous resources and focus. The industry often requires a long-term view—considering long-tail risks, policies that can last a lifetime, and the need to build and maintain historic knowledge and project results far into the future.

But now, insurance ecosystems are upending many of these long-held assumptions. By choosing their approach to ecosystems strategically, smaller carriers or regional players may be able to close the opportunity gap. Meanwhile, even a large balance sheet may not prevent the risk of commoditization for those carriers that fail to get off the sidelines. But, if large insurers can use their influence to design and deliver an even more comprehensive offering, they may help prevent buyers from shopping any further. Figure 1 provides more background on the rise of ecosystems.

Figure 1: Insurance ecosystems use interwoven relationships to fulfill customer needs

<table>
<thead>
<tr>
<th>Interconnected offerings</th>
<th>&gt; Insurance addressing range of personal risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Variety of providers</td>
<td>&gt; Might include multiple carriers, InsurTech companies, ancillary services</td>
</tr>
<tr>
<td>Customers fulfill multiple needs</td>
<td>&gt; Customer-centric approach gives buyer extensive choice</td>
</tr>
<tr>
<td>Integrated user experience</td>
<td>&gt; Consolidated interface, regardless of how many companies are in a bundled offering</td>
</tr>
</tbody>
</table>

For more background on insurance ecosystems, we recommend “Ecosystems and partnerships: the future for insurers,” a report prepared by our colleagues at PwC Netherlands.

Source: PwC Financial Services Institute

Historically, companies were fairly self contained. By contrast, ecosystems represent a much deeper set of interwoven relationships across a particular domain, with governance and technology that delivers value to customers and profits to partners. The new model begins with putting customers’ needs and desires first (see Figure 2). It seeks to create a desirable buying experience, including products and services that customers want. To succeed at this, companies will need to refocus externally in nearly every part of their organization.
Why ecosystems have taken on new urgency for insurers

**The pandemic has accelerated the ecosystem evolution.** We’ve all seen this coming. But during the pandemic, retail and commercial customers have rapidly learned to engage remotely, and they now expect 24/7 service and easy interactions in everything they do. Insurers’ legacy limitations (silod processes, lack of single customer view across units, limited external connectivity, etc.) now look increasingly out of step with post-COVID-19 buying behavior and distribution patterns. Rather than taking five to seven more years to execute on their digitization roadmaps, participating now in an interconnected supply and demand service model is starting to look better, faster and cheaper.

**Enabling technology is affordable—and it works.** Cloud-based technology and machine learning have helped InsurTech firms grow quickly without the weight of legacy systems. As we noted in a report on InsurTech innovation, startups are helping carriers fill gaps—particularly as many insurers are modernizing their core systems to make external integration more practical. The same technologies are also supporting innovation from unexpected competitive sources, potentially offering services or components that are “good enough” at costs far below industry norms.

Many insurers have been watching the rise of ecosystems. As part of an as-yet-unpublished survey on the financial services industry in 2025, 79% of the insurance executives we asked agreed that “insurers will increasingly engage in ecosystems that serve broad needs of customers, where insurance is only part of the customer value chain.” Clearly, they understand the implications could be dramatic, but they have been waiting to make a move. That time is here: the building blocks are all in place, and it’s time to make some deliberate strategic choices about how to participate.

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1 PwC, unpublished report, FS 2025.
As businesses move to an ecosystem model, the strategic options multiply, and even similar organizations might make very different choices. Two mid-sized P&C carriers might choose different roles, investments and partnerships, depending on their risk appetite, organizational culture, technical capabilities and ability to invest.

Here are four things to keep in mind as you evaluate how to compete in the emerging world of insurance ecosystems:

- Choose your ecosystem role(s) strategically.
- Good opportunities won’t last.
- Adjust your approach to match an ecosystem’s maturity.
- Make deliberate choices with your ecosystem investments.

**Choose your ecosystem role(s) strategically**

You can become involved in an ecosystem in a variety of ways, with different levels of commitment and investment, but these will not all be equally useful to you. To describe these roles, we refer to owners, orchestrators, adaptive participants and opportunistic participants (see Figure 3). We call companies that go it alone “abstainers.” If you’re heading down that path, be sure you understand the implications.

Your role(s) reflect how you’ll relate to other participants and the degree of your commitment. This may be more complicated than it appears. As an owner, for example, you’ll build and control the ecosystem, but at great cost and at the risk that other more nimble players could overtake you. An orchestrator creates a foundation, including technical platforms, and captures customer data, but it may be hard to curate the entire customer experience. Adaptive participants plug into one or several ecosystems. This is a lower-risk strategy, but it’s more behind-the-scenes and could cause you to lose contact with end customers. Abstainers are entirely responsible for their own offering—and this could put them at a significant disadvantage if buyers find an ecosystem’s holistic approach more appealing. They also may miss the opportunity to provide their capabilities as inputs into other participants’ offerings.

Some insurers may take different roles in a number of systems at once, depending on resources and focus. But we largely expect ecosystems to evolve within a particular sector, with both industry and non-industry partners joining forces to develop markets that work for all.
Figure 3: Insurance ecosystems use interwoven relationships to fulfill customer needs

<table>
<thead>
<tr>
<th>Role</th>
<th>Description</th>
<th>Benefits</th>
<th>Risks</th>
<th>Scope</th>
</tr>
</thead>
<tbody>
<tr>
<td>Owner</td>
<td>Invests in creating the foundation for an ecosystem, including sourcing participants.</td>
<td>Maintains control over end customer experience and data. Continued brand recognition and direct growth for business. Limit customer exposure to competing brands.</td>
<td>Large investment required to build in time, capital. More “open” competitors could outpace “closed” systems.</td>
<td>Very significant investment in time, investment, and corporate focus. Potentially transformational.</td>
</tr>
<tr>
<td>Orchestrator</td>
<td>Creates a foundation, with technical platform, integrations, management and incentives for participants.</td>
<td>Captures and owns customer data. Control over vendor participants.</td>
<td>Other participants may extract value. Difficult to monitor end-to-end customer experience.</td>
<td>Significant investment, with potential to strengthen sector position for the long term.</td>
</tr>
<tr>
<td>Adaptive participant</td>
<td>Evolves business model to effectively “plug into” various ecosystems.</td>
<td>Decreased investments in traditional customer acquisition methods. Organic market share growth through multiple ecosystem participation.</td>
<td>Might lose customer recognition and become dependent on the ecosystem as a primary revenue source.</td>
<td>Material cultural shift needed, support new investment, with access to new revenue streams.</td>
</tr>
<tr>
<td>Opportunistic participant</td>
<td>Seeks to engage where the existing business model allows.</td>
<td>Low investment to play. Opportunity to diversify revenue.</td>
<td>May be cannibalized by the ecosystem if you’re seen as replaceable. Loss of additional revenue from not pursuing larger roles.</td>
<td>Minimal commitment, but limited upside.</td>
</tr>
<tr>
<td>Abstainer</td>
<td>Stays on the sidelines.</td>
<td>No investment or strategy required. No need to adapt business model.</td>
<td>May lose market share, revenue to ecosystems. Could be Increasingly isolated and commoditized.</td>
<td>No commitment.</td>
</tr>
</tbody>
</table>

Source: PwC Financial Services Institute
**Good opportunities won’t last**

Unlike more internally focused insurers, companies that “get” ecosystems have learned to make agile buy-build-borrow decisions. When you’re faced with potential tie-ups, you’ll want to be able to decide quickly because the most appealing opportunities won’t last. Ecosystems benefit from having a variety of partners. Whether you’re the organizer or are providing products as an adaptive participant, look for tie-ups that add complementary and scalable products or services to drive more traffic into the ecosystem. Ideally, partners leverage each others’ capabilities, and learn from each other to help the ecosystem grow.

Making quick deal decisions is more important than ever. In addition to organic growth through partnerships, you may also find inorganic growth opportunities, such as via an acquisition, that advance your ecosystem strategy, both directly and indirectly. *We expect 2021 to be a busy year for buyers and sellers*, driven by divestitures of non-core businesses, continued competition for distribution targets, hardening specialty P&C markets and significant levels of deployable capital. Whether you’re considering a potential partner or an acquisition target, your due diligence process should include intangibles. After all, your stakeholders should know what your brand promises: value, service, innovation, trust, stability, etc. If a potential partner or acquisition doesn’t bolster that image, or its culture won’t mesh with the ecosystem’s, then you should be prepared to answer hard questions.

Finally, in the world of ecosystems, the big risk may be complacency—assuming that one can wait indefinitely to determine the best corporate development strategy. When certain ecosystem positions are taken, or when the InsurTech player that can fill a key need has been bought by a competitor, then you’ll be out of luck.

**Adjust your approach to match an ecosystem’s maturity**

Ecosystems vary considerably by maturity and focus. In one subsector, for example, you may see partners offering components—user calculators, apps to collect participant data, platforms that can integrate with third party information providers—but, for now, still have a somewhat fragmented experience for the end user. That doesn’t mean you should wait for clarity; rather, it means you may have more of an opportunity to shape the outcome. In this case, you’ll want to emphasize patience, recognizing that whatever you build may be an interim solution. Other ecosystems may be much farther along, and this will call for a different approach. In those markets, you may need to quickly decide how you plan to integrate, and on what terms, as you catch up to other participants.

Ecosystems don’t necessarily come with clear labels or governance. In fact, some may start with a bilateral partnership model, offering additional value for customers by bringing together two non-competitive providers. Over time, this may morph into more of a product marketplace, or it could appear more like a traditional vertical integration model, even if some capabilities are white-labeled. In each case, relationships are developing far more quickly than before and the opportunities that present themselves today are unlikely to be available six months later.
Make deliberate choices with your ecosystem investments

For most insurers, ecosystems will require some new thinking about product design, data and technology. You’ll likely need to build out these capabilities, using additional investment to

- Provide individualized recommendations that drive engagement and adoption. Frankly, few insurers have invested much effort in improving the user experience (UX) for internal and external users. But ecosystems, like social media sites, depend on keeping users “plugged in” whenever relevant. Your users will expect communication that is relevant and personal.

- Open up systems securely to your employees, employers and partners so you can be more flexible about the products, services and experiences you offer. This means building a well-functioning API framework and enablement process, and expanding integration capabilities to support secure connections to external parties, such as your customers and partners. You may also need to make changes on the back end to your data management programs, data storage and exchange platforms, as well as develop analytical capabilities to fuel data-driven decision making and discovery.

- Bring together data, analytics and business intelligence assets to “sense” market insights, and package them to provide more value to ecosystem offerings. For many carriers, data can be difficult to access and use effectively, and may be stuck in silos.

- Design, develop, source and manage products and services to meet customer needs, offer value to other ecosystem members, while also reducing the capital intensity of your own business. This is inevitably a balancing act that requires prioritization. You can’t do it all, and ecosystems may provide an ideal way to meet those needs without “owning” a product. For example, according to the PwC Touchstone survey of US companies, the number one focus of employers hoping to improve people strategies is to offer benefits, outranking even compensation and corporate culture. Most employers aren’t offering their employees ancillary benefits (see Figure 4)—in combinations that one might expect to find in an insurance ecosystem. These and other benefits that have soared in popularity after the pandemic, like mental health offerings and child care, can strengthen an insurer’s value proposition—but that’s not to say that the insurer must directly provide these services. By bringing along one or more ecosystem participants, a carrier can quickly satisfy customer needs, widen its offering, and make its own customer experience that much “stickier”.

Figure 4: Insurance ecosystems use interwoven relationships to fulfill customer needs

<table>
<thead>
<tr>
<th>Benefit</th>
<th>% of employers not offering</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-term care insurance</td>
<td>77%</td>
</tr>
<tr>
<td>Legal insurance</td>
<td>53%</td>
</tr>
<tr>
<td>Identity theft protection</td>
<td>54%</td>
</tr>
<tr>
<td>Auto insurance</td>
<td>68%</td>
</tr>
<tr>
<td>Homeowners</td>
<td>70%</td>
</tr>
<tr>
<td>Personal liability</td>
<td>91%</td>
</tr>
</tbody>
</table>

Source: PwC Touchstone survey 2020

Ecosystems are a logical response to a flexible, highly networked business environment. They can provide the effect of scale without the asset intensity and command-and-control leadership that characterized so many 20th century titans. They require their participants to exercise a different set of skills: flexibility, customer intelligence, speed, and coordination. This is a time of great transition, offering both opportunity and risk for big and small companies alike.

Ecosystems’ appeal is undeniable. They offer carriers a chance to reach beyond conventional insurance products and strengthen their relationships with customers. Many prominent insurers have been watching the assembling networks with curiosity and interest but often without much urgency. To be fair, this is an approach that has typically worked for insurers in the past: change occurred slowly, and the competitors were known quantities, so there was always time to catch up. Now, to be able to follow, carriers need to understand where they will fit in—and they need to do so before the appealing opportunities are taken. There is tremendous upside, but not for those that sit on the sidelines. The waiting period is over.
We are grateful to PwC’s Katie Klutts, Paul Livak, Sarah Hyman and Bruce Brodie for their contributions to this report.
Thank you