

# Connective Layer in Business For Insurance & Reinsurance Companies

## Connective Layer in Business

The Connective Layer in Business concept and approach, as described in this document, was created by a leader/strategist in the mid-1980s as a way of addressing the difficult task of getting a roomful of powerful banking leaders, who were employed in a multinational bank but working in 30 different countries, to come to agreement on strategic programs to invest in. Each leader was adamant that her/his business and operating model was unique and therefore reluctant to participate in any program requiring joint funding. The connective layer concept was what enabled the business leaders to visualize the business capabilities and assets they can benefit from as a community, jointly fund and manage, and still preserve the uniqueness of each business and how it operates.

## What is a Connective Layer in Business?

Figure 1: Key Definition

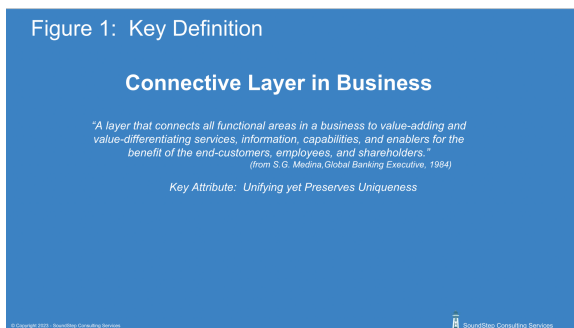
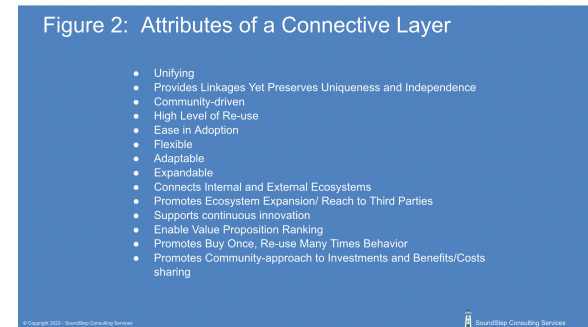


Figure 1 shows how the person who created the concept and used it as a strategic planning approach defined *Connective Layer in Business*.

Figure 2 summarizes the main attributes of a Connective Layer in Business as it was originally formulated and as it has been refined since the mid-80s to the present time.

Figure 2: Attributes of a Connective Layer



Note well that each of the attributes on its own is already challenging to achieve. This is especially true for companies that are in multiple lines of business, multiple geographical locations, and possess a federated form of management.

The last three attributes, 1) Enable Value Proposition Ranking, 2) Promotes Buy Once, and Re-use Many Times Behavior, and 3) Promotes a Community-approach to Investments and Benefits/Cost Sharing require rigor on the part of the strategic

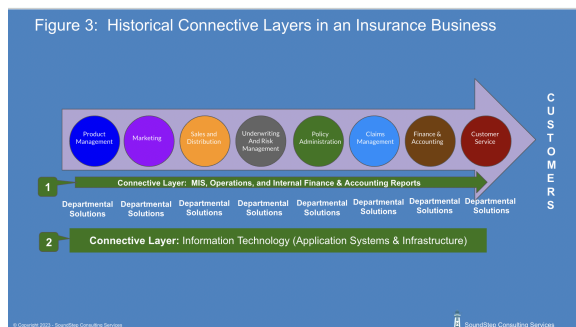
planners and C-level support staff, and strong support from the C-level executives. Note well that most of the companies who are successful have built a strong strategy formulation and planning competence and discipline into their company DNA.

## Connective Layer in Insurance

The insurance business has been around for centuries. And the insurance business value chain, like many historical brick and mortar businesses, follows the traditional factory or product manufacturing model.

In Figure 3, the default connective layers in Insurance as with many financial institutions are, 1) the MIS reports, day to day operations reports, and internal finance and accounting (budgeting and tracking) reports has a factory model, and 2) the Information Technology layer of application systems, applications services, infrastructure services, telecommunications, networking, and related hardware and third party software, and data centers.

While there are other connective layers (sometimes called shared services or accessible centers of excellence) for the most part they were and are being created to streamline processes, increase effectiveness and efficiency, reduce operating costs, and manage the *seams* that exist between each functional area.



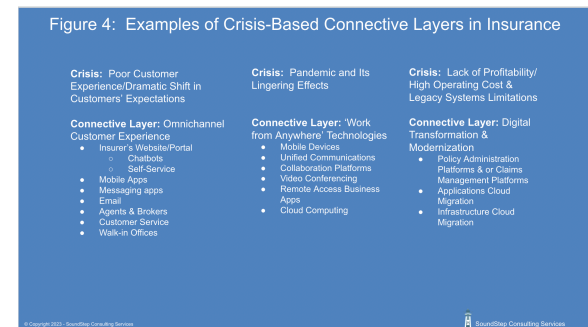
Both of the aforementioned layers are enhanced as better and more powerful technologies become available and are implemented by the insurers.

Like most financial institutions that are operating in the highly-regulated Financial Sector, insurance and reinsurance companies have the regulatory compliance and governance layer that can be considered as being connective, especially since it runs across all the functional areas.

Over decades, the outcome is highly visible since most insurers have more than their share of legacy IT systems and infrastructure. The constant swapping in of better technologies and swapping out of dated ones is an ongoing painful burden. More often than not, departmental or point solutions are implemented and the discipline to create a proper connective layer goes out the window.

## Connective Layer Driven by Crisis

Figure 4 shows the connective layers that insurers have been driven to pursue as a result of three specific crises.



Most of the major Tier 1 Insurers (and Reinsurers) have made significant progress in the three connective layers mentioned. On the other hand many insurers are still struggling especially with getting the

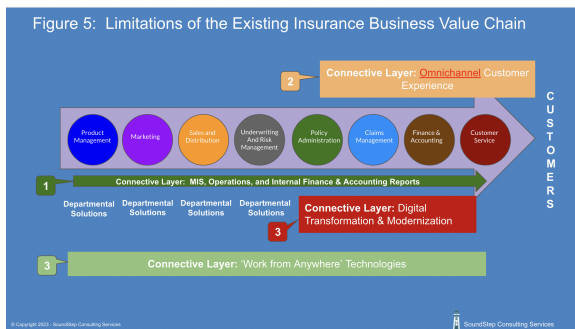


funding, resources, and focus necessary to complete their digital transformations.

It's important to note that the Omnichannel vision remains a difficult goal to achieve even for the top Tier 1 insurers and reinsurers.

## Limitations of the Existing Insurance Value Chain

Figure 5 shows the connective layers that are in a typical insurance and reinsurance company today.



Item 1 in the diagram shows that the historical connective layer of management and other reports are intact (shown in deep Green color).

Item 2 shows the ongoing challenges of trying to achieve the Omnichannel vision (in Yellow-Ochre color).

Item 3 in Light Green color shows the 'Work from Anywhere Technologies' layer, and it's shown in Light Green because for most insurers and reinsurers progress has slowed after the pandemic became manageable leaving opportunities to make critical day-to-day processing systems and data analytics systems accessible from any location simply unfinished.

Item 3, shown in Deep Red are the digital transformations that are underway in most if not all insurers and reinsurers. Note well that both the Work from Anywhere Technologies and the Digital Transformations have been labeled 'Item 3' because for the most part the underlying technologies that enable 'Work from Anywhere' are digital technologies.

Careful analysis of Figure 5 shows the limitations of the existing insurance value chain and these include:

- It's a factory model and success in the digital era requires a value chain that starts and ends with the customers
- Most of the digital transformation programs are to replace policy administration and claims systems and provide automation in the service units (aka cost centers)
- Digital transformation programs for the business units (aka revenue generating units and activities) are not taking the lion shared of the transformation investments
- The end-to-end connective layers remain the historical management and operations reporting layer and the newly implemented Work from Anywhere layer.
- The migration of application systems, infrastructure services and infrastructure assets to Cloud (not shown in the diagram) is another connective layer borne out of a crisis - high cost of legacy systems, assets, and operations.



## Reflection and Call to Action

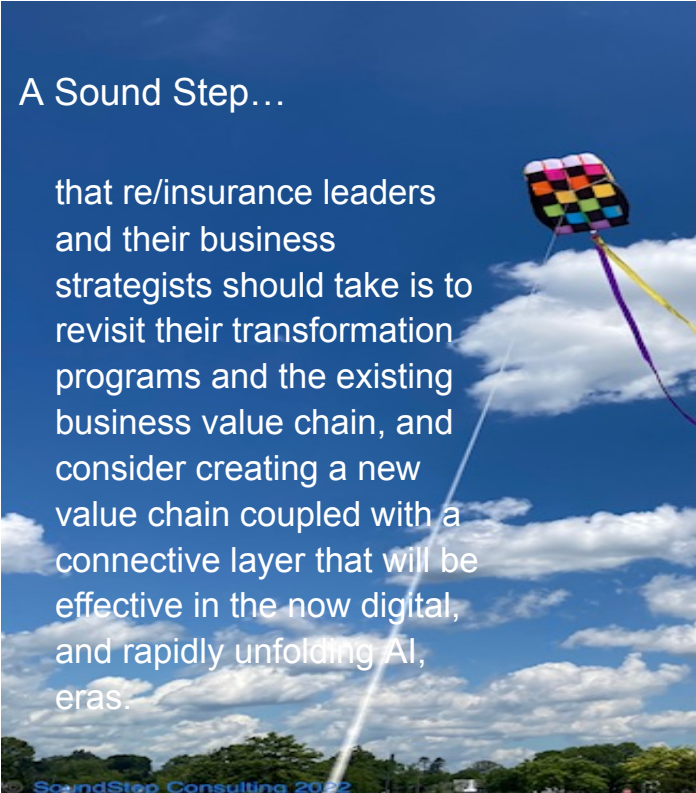
Insurance and reinsurance leaders and their strategists should step back and determine how long the current digital transformation programs in progress today will take, and what digital transformations specifically for the revenue-generating functional areas and activities will be undertaken.

Will the product management, underwriting, marketing, sales and distribution functions have to wait until the digital transformations in progress today are completed before they can take advantage of game changing technologies?

It's also important for the leaders and their strategists to re-visit the third party relationships they have, for example, with insurtechs, technology services providers, business outsourcing services companies, and cloud services providers and determine which of these relationships will be significantly impacted if either a new business value chain is created, and/or a new connective layer is created (by design and not as a reaction to a crisis).

This is an important strategy review activity in the context of embedded insurance/finance, and a rapidly unfolding, new artificial intelligence era.

## A Sound Step...



that re/insurance leaders and their business strategists should take is to revisit their transformation programs and the existing business value chain, and consider creating a new value chain coupled with a connective layer that will be effective in the now digital, and rapidly unfolding AI, eras.

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