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Value chain development in the Dutch insurance industry

The strategic renewal of value chain activities.

Van Ameyde

UNIVERSITY OF TWENTE.

'What underlies at the value chain vertical (dis)-integration developments in the Dutch insurance industry.'

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Management summary

In order to be successful in today's insurance market it's argued that much comes down the claim services as a key point in the spectrum of the insurance providers activities. Insurance companies have the difficult task to reduce cost while still improve their customer services and all that under the compliance of an increase in national and international regulation. The tasks at hand are heavily draining the resources of the insurance providers (Van Ameyde, 2013). This explorative study focuses on the identification of factors, which either drive or impede the value chain structure of the insurance industry towards an (dis) integrated state. During this research an answer to the research question: *"What factors drive or impede firms in the insurance industry towards value chain (dis) integration?"* will be answered.

Within this research a theoretical framework is established to provide insight in why and how (dis) integration happens and what enables or impedes firms to strategically renewing their activities. These insights were used in order to perform a case study with the multiple case selection based on a small sample with purposeful sampling in order to maximize the variety of profiles and heterogeneity of perspectives within the industry. The cases studied agreed upon the overall tendency as shown in theory as well, that the high rates of technological change and high degree of competitive intensity cause a reduction in inertia enabling them to adept to their environment. The factor of technology change is often used as one of the most critical factors that lead to an increased use of modular organizational forms within industries. These rapid innovations that take place pushes the firms to acknowledge that they can't keep up with cutting edge technologies in all activities simultaneously. Therefore, the increase in competitive intensity may push several firms within an industry to overcome their inertia and adapt more quickly, into a vertical structure that is more capable of competing within the increasing levels of heterogeneity and can counter the pressure of need for flexibility. The factor that impedes firms within the insurance industry towards value chain changes is the hesitation to adapt to the changing environment with regards to leaving historically core capabilities behind even though other possibilities are of higher return.

In conclusion the initial motivators of disintegration are the increase in heterogeneity of customers' demands and the overall dynamic aspect of the current state of the industry that demands for an increase strategic flexibility and a greater demand of specialized firms. The distinct knowledge bases regarding claim handling have in most cases led to an increase in outsourcing of this activity. Driven by heavy price pressures (increased competitive intensity) and rapid technology changes that allowed them to enable claim handling in a more efficient manner through the use of the market and increase the scalability of claims. With the

increase usage of technology the component of innovation becomes more and more dominant in order to cope with the competition resulting in the use of technological external parties in order to refill lacking parts within their value chain in order to survive. Technology developments also stimulate and simplify the way in which data is transmitted between customers, clients and other company's worldwide allowing for a reduction in coordination between activities. Although the introduction of Solvency still has yet to have an impact on the vertical structure of the insurance industry. It could stimulate sourcing options, as it provides an embedded form of control within the information that can be utilized and drive disintegration. However, legislation changes overall can positively or negatively affect incentives to overcome inertia as it acts, as a boundary between what is technologically possible and what law and regulations allow.

Leading to managerial implications of this research, which act as advice for insurance service providers and are listed in Chapter 7.

Preface

This thesis is written as the final part of my master in Business administration and is completed for Van Ameyde International B.V. Rijswijk. Van Ameyde has given me the opportunity to investigate the enabling and hindering factors that lead to (dis) integration developments within the Dutch insurance industry. This ending phase of my master has not only helped me shape my professional life but also developed me in a personal matter.

I would like to appoint my gratitude to several people who contributed in the finishing of my master thesis. Special thanks goes to Piet Middelkoop. Piet is the CEO of Van Ameyde and helped me by giving his critical view on my work as well as guiding me towards a professional way of working. Of which in the end I'm grateful for, as it will help shape my professional career. Secondly, I would like to thank the employees at Van Ameyde International for the engaging and overall interest in my study and their willingness to collaborate.

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1 Introduction

1.1 Industry evolution

In order to be successful in today's insurance market it's argued that much comes down the claim services as a key point in the spectrum of the insurance providers activities. Insurance companies have the difficult task to reduce cost while still improve their customer services and all that under the compliance of an increase in national and international regulation. The tasks at hand are heavily draining the resources of the insurance providers (Van Ameyde, 2013). In todays rapidly changing environment the insurance industry is changing.

The evolution of industries and therefore the particular changes that occur within an industry has been a key point of interest amongst management scholars and managers for years. Several topics have been addressed extensively such as: the well-known life cycle of industry's products and process technology (Abernathy & Utterback, 1978; Klepper, 1997). However, these streams of research mostly focus on the evolution particular industrial technological change and changes in the horizontal structure of the market, therefore disregarding the development of the vertical structure of the market, which would complete the picture. Also changes in technology and their impacts on firms success are highly researched (Henderson & Clark, 1990; Tushman & Anderson, 1987), which introduces the aspect of architectural innovations next to the traditional categorization of innovations as incremental or radical that eventually destroy the architectural knowledge of established firms and the impact of technological breakthroughs on the environmental conditions. Another central research topic is the adaption to changing demands (Burgelman, 1991; Winter, 1984).

Yet, the facet of the dynamic organizational processes of vertical disintegration have rather been unused and perhaps even been undervalued for a long time although it is a broadly observed business phenomenon (Jacobides, 2005; Chen, 2005). The automotive sector could be taken as an example, giving up parts of the value chain to more specialized firms in the production of auto parts (Fine, 1998; Fine & Whitney, 1996). The process of vertical disintegration can be defined as: *"The emergence of new intermediate markets that divide a previously integrated production process between two sets of specialized firms in the same industry"* (Jacbobides, 2005, P. 465). The occurrence or emergence of vertical disintegration within industries is concerned with the unbundling of value chain activities that a firm performs to produce or deliver its product or service. The unbundling of activities within the insurance industry and the value that lies within this emerging mediating market has caught the attention of Van Ameyde several years ago. However, recent changes could have potentially increased the value that lies within this market. Turning Van Ameyde into a specialized firm in handling the claims processes of several insurance companies.

Jacobides is the leading researcher at this moment in addressing industry evolution in terms of value chain (dis) integration. The research of Jacobides (2005) in particular, provides us with several indicators and factors that invigorate vertical disintegration in an industry and addresses their need in order for new (intermediate) markets to emerge. The formed framework, explains when and why vertical disintegration could occur in an industry. Therefore providing a useful tool to understand if an industry is undergoing such an industry change, the framework identifies initial motivators that are driving vertical disintegration (Jacobides, 2005).

To further elaborate, the value chain *"consists of the set of value-adding activities that need to be undertaken for a product to be made or a service to be rendered"* (Jacobides, 2005, P.465). With the occurrence of vertical disintegration within an industry, the value chain developments are affiliated with the separation of a firm's vertically related business activities into independent firms (Chen, 2005). Several activities performed by a firm - which were previously performed in-house - will be outsourced to external providers. Thus meaning a decrease in the amount of economic activity that is coordinated within the firm itself and a related increase in the proportion of economic activity that is performed through the use of market (Gilson, Sabel & Scott, 2009). So, 'how do value chains develop?' is a question that arises from this topic for me. Yet again, is there limited research available on the topic of the overall institutional structure of an industry and how and why they develop as such as well as the causes and effects of vertical disintegration (Cacciatori & Jacobides, 2005; Chen, 2005).

In order to fully grasp the aspect of the vertical structure of an industry Cacciatori and Jacobides (2005) suggest switching from a static point view towards a dynamic analysis of where these shifts in industry-scope originate. Therefore to decipher the causes and effects of these organizational processes both directions along the vertical structure, disintegration and integration are of importance to fully understand the dynamic. Considering that this will bring insight in the factors that drive or impede these processes, and are considered responsible for the changes made in value chain activities. With the related factors uncovered we have created a clearer view of the situation to base assumptions upon these factors and their developments. Which might reveal whether or not firms will pursue or are more or less being forced to pursue value chain (dis) integration and strategically renew their value chain activities.

A related topic that hasn't had the full attention of management scholars and managers is the possible mediating role of the government in vertical disintegration (Jacobides, 2005). Which is a very relevant and current topic considering the introduction of the Solvency II regulations in the financial service market starting at the beginning of 2016. The European Commission has created a framework for financial services to enhance consumer confidence and establish high levels of consumer protection consisting out of three pillars; quantitative requirements (required solvency capital, technical provisions), Qualitative requirements (risk management policies, Solvency assessments), Reporting requirements (Reporting to financial services authorities and the public) (Eling, Schmeiser & Schmit, 2007). Recent changes in the service portfolio of Van Ameyde in combination with the major changes in legislation by the Solvency II has led to an interesting research topic. A descriptive chapter concerning Solvency II is added within the Appendix (9.2).

1.2 Problem statement

The insurance industry has been badly hit by the credit crunch and has notably been affected by it in terms of strengthening in European Legislation. These changes in legislation, the introduction of Solvency II, combined with several others – yet to determine – factors and their developments can have considered effects on the managerial decisions of insurance companies. Causing insurance companies to restructure their value chain activities in order to cope with an increase in rivalry resulting in a more dynamic and even more fierce environment in which business now needs to compete. Current academic literature struggles to help explain if and why vertical integration remains or disintegration becomes the dominant corporate strategy within the vertical scope of the insurance industry. The activities of claim management providers are largely depended on this market and its development, which is why creating insight in these factors are considered highly valuable for the Van Ameyde Group (Van Ameyde, 2014). Important questions arise concerning the potential benefits from more or lesser vertical (dis) integration and the factors, which serves to enable or impede change towards the appropriate degree of vertical (dis) integration in the insurance industry.

1.3 Research Question

Van Ameyde is interested in a theoretical part of how and why value chain (dis) integration occurs within industries and second, Van Ameyde wants to see the current value chain structure and their possible direction of development with its potential causing factors as such. Therefore the research question is formulated as:

"What factors drive or impede firms in the insurance industry towards value chain (dis) integration?"

The central Research question is split up into sub questions for a better understanding of the entire situation (1) A Theoretical framework is built in order to know how and why value chain (dis) integration might happen in an industry and (2) A firms' and industries' boundaries decisions that provides information on the topic of what is strategically wise to unbundle in their value chain. The framework is followed up by (3A) case studies in the insurance industry in order to determine the current value chain structure as perceived by Dutch insurance industry cases and (3B) to identify the drivers and impediment forces that are observed within these cases from their perspectives. Continued by (4) a cross case analyses of the cases to determine and analyse the difference and similarities that can be identified between them. Leading to (5) which reflects upon the developments that are perceived throughout the cases in terms of its potential direction towards (dis) integration within the vertical scope of the insurance industry.

1.3.1 Sub questions

1. How and why does value chain (dis) integration occur within industries? [Theory]
2. When are firms enabled or inhibited to strategic renewal in their activities? [Theory]
3. A: what is the current value chain structure within the Insurance industry? [Empiric]
   B: What drivers and impediment factors are observed within the Insurance industry? [Empiric]
4. What similarities and differences can be identified between the cases? [Empiric]
5. What developments are perceived by combining the theoretical and empirical perspectives regarding the vertical scope within the insurance industry? [Combined perspectives]

2 Theoretical Framework

In response to an increase in competition due to globalization, increasing technological advancements and also the entrance of new international player, more and more firms from various industries are taking measures to revaluate and restructure their value chain activities in order to remain competitive and enable them to operate flexible (Kedia & Mukherjee, 2009). The model designed by Jacobides (2005), indicating drivers and mechanisms of vertical disintegration and market creation can help to explain why and when vertical disintegration occurs and therefore can help to the successful uncovering of the evolutionary processes in the vertical structure of the insurance industry.

So first and foremost in order to understand the possible developments that are occurring along the value chain of insurance companies, we have to try to understand the structure of the value chain and its value creating activities. We also have to consider the fact that the value creation logic will be perceived differently between industry experts, as they will describe it from their own (firms) viewpoint. It is therefore key to understand the value creation logic in a more general perspective and not in highly detail.

In the following sections, the theoretical framework will be outlined. An explanation will be given of the importance of value chain analysis, accompanied by its possible alternatives in doing so. Followed by changes within industries, how and why vertical (dis) integration occurs within industries to provide us with insights in these evolutionary organizational processes and finally what factors enable or inhibit firms to strategically renew their value chain activities.

2.1 Understanding the Value Chain

The value chain is the set of activities that ultimately delivers the value for the firm or it "consists of the set of value-adding activities that need to be undertaken for a product to be made or a service to be rendered" (Jacobides, 2005, P.465). Subsequently, the activities consists out of a set of tasks that need to be performed or can be defined as "the tasks that need to be taken care of" (Jacobides, 2005, P.465). It lies within the current experience of developments along the value chain of insurance companies that they are outsourcing their entire claim handling process to a more specialized firm like Van Ameyde to handle their claims management processes. This is seen as a starting point of vertical disintegration along the value chain of the insurance companies.

One of the most critical aspects within the value chain analysis is the determination of the value allocated to a particular activity. In other words, it is often hard to create a clear distinction between strategic and non- strategic value creating activities. In most cases this is influenced and worsened by having conflicting priorities within an organization. Therefore the lack of coordination between different company activities leads to conflicting sourcing tactics (Venkatesan, 1992). There are several reasons why activities can be better of being outsourced to an external supplier than done in-house. This is highly affiliated with the traditional 'make or buy dilemma's', which we will discuss into a greater extent in paragraph 2.1.2.

With the use of the value chain analysis method, the strategically important activities of firms can be decomposed and their relevance with respect to their influence on costs and the creation of value for firm can be understood (Stabell & Fjeldstad, 1998). By the work of Porter (1985, 1990), generic activities were defined that underlies at the way in which firms create value and are considered applicable in all industries. The primary activity categories are; inbound logistics, operations, outbound logistics, marketing and service. However, the method received critiques for appearing to be less suitable for the use of analysis in several service industries[1], and be more fitting for the analysis of manufacturing firms. Therefore, Stabell and Fjeldstad (1998), created alternative configurations in order to understand the value creating activities for different types of firms in their particular industries and created two other value configurations methods instead of the sole use of the value chain analysis.

[1] Lowendahl (1992) & Armistead and Clark (1993).

2.1.1 Alternative value configurations

The initial and traditional value chain analysis as mentioned before is based on the work of Porter (1985); his view is broadened by the works of Stabell and Fjeldstad (1998) by combining it with the use Thompson (1967). They propose that next to the traditional view where the value chain is considered to be a *long-linked* technology where the value is created by transformation of inputs into products, which reflects (assembly line) manufacturing way of value creation. The activities along the value chain have cohesion with each other in order to deliver the end value, which is resembled by the product or service created. The art of understanding how firms differentiate from one another is a key objective for both theory and strategic management practices (Nelson, 1991). Therefore they added two configurations to promote the fact that value chain analysis is adaptable and can be used beyond the traditional view.

	Chain	Shop	Network
Value creation logic	Transformation of inputs into products	(Re)solving customer problems	Linking customers
Primary technology	Long-linked	Intensive	Mediating
Primary activity categories	• Inbound logistics • Operations • Outbound logistics • Marketing • Service	• Problem-finding and acquisition • Problem-solving • Choice • Execution • Control/evaluation	• Network promotion and contract management • Service provisioning • Infrastructure operation
Main interactivity relationship logic	Sequential	Cyclical, spiralling	Simultaneous, parallel
Primary activity interdependence	• Pooled • Sequential	• Pooled • Sequential • Reciprocal	• Pooled • Reciprocal
Key cost drivers	• Scale • Capacity utilization		• Scale • Capacity utilization
Key value drivers		• Reputation	• Scale • Capacity utilization
Business value system structure	• Interlinked chains	• Referred shops	• Layered and interconnected networks

Figure 1: Stabel and Fjeldstad, alternative value configurations (1998, P. 415)

In the *value shops* configurations, it is complicated to evaluate the firm-level relative value advantage in comparison to the evaluation of cost, because the relative cost of the activity is not necessarily in relation to the value that it generates. Therefore, a relatively small percentage of the overall cost of an activity can have great impact on the value that it generates. The challenge therefore lies in establishing meaningful – indicators of value – to assess the capability of the firm to address customers' problems. In value shops the value of an activity is assessed by, the impact it has on the definition of the following activity in the decision cycle.

The last value configuration that is proposed is that of the value network, these firms rely on a mediating technology in order to create a link between the customers who are either independent or wish to be so (Thompson, 1967). Examples of firms that create value by the facilitation of exchange between their customers, and therefore the linking of organizational activities are; Telephone companies, Banks, Transportation companies, and insurance companies (Stabell & Fjeldstad, 1998). This creation of a link can be done – directly by linking customers directly to each other or – indirect where there is a common unit in between the customers. The business value system of companies who operate in such a mediation industry is likely to be focussed around coproduction, layered and interconnected networks that will increase the range and reach provided by the services created (Stabell & Fjeldstad, 1998). The following points depict the value creation logic of the value network; *“Mediators acts as club mangers, Service value is a function of positive network demand side externalities, Value is derived from - service, service capacity and service opportunity-, Mediation activities are performed simultaneously at multiple levels, Standardization facilitates matching and monitoring, distinct life cycle phases or rollout and operation, Layered and interconnected industry structure”* (Stabell & Fjeldstad,1998, P. 427-429).

The interdependence between the value chain activities needs to be handled through ‘coordination’ in order for them to come together and create value as a whole. Thompson (1967) describes three types in which the interdependence might occur: pooled, sequential and reciprocal interdependence. It is stated that all value creation technologies at least have a degree of pooled interdependence, meaning that the organizational activities are sharing some sort of common resources (Stabell & Fjeldstad, 1998). There are two ways in which mediating firms are creating and offering value to their clients – through the access option itself or –through the actual use of the service (Stabell & Fjeldstad, 1998).

What is distinctive to the mediating value configuration is that the scale and composition of the network and capacity utilisation are both possible cost as well as value driving factors. The value of the network (or service) increases with each customer that is added to it (Shapiro & Varian, 1999). However, the scale and composition of the network is a very important factor with the insurance industry as the composition of the network influences risk assessments. If the composition in of the customer network is at an unbalance; meaning that a particular set of the insurance providers customers receive a disproportionate part of the insurance claim, the company’s profit will decrease (and go below industry averages) or they will increase the cost of the insurance and therefore drive up the cost for the rest of the customers. The network composition is crucial for insurance companies profitability within the segment as well as pricing. Regarding profiting from scale advantages having common industry standards is critical in exploiting economies of scale, as standardization facilitates the matching and enables the mediator to effectively monitor the interaction between customers (Stabell & Fjeldstad, 1998). At last effectively utilizing the capacity of the service will reduce unit costs, however this comes at a cost as it often goes paired with a reduction in service levels. Hence, in the value network, it is both a cost and value driver.

As considered by Stabell and Fjeldstad (1998), the value chain creation logic of insurance companies can best provided by the value network configuration. Depicting the mediating role Insurance providers has in linking customers. However we must conclude that most firms will not be purely based on one particular value configuration. A single firm can be invested in several different activities with the use of different technologies. But where these hybrids decompose their activities and the use of different value creation logic is needed with the challenges of effective integration and coordination might actually present them with unique opportunities for creating a competitive advantage over their competitor. Different kinds of businesses need to be managed differently (Lawerence & Lorsch, 1967).

2.1.2 How do changes in the value chain arise

As for many firms the dilemma at one point in time may arise to 'make' or 'buy' inputs, and transfer outputs downstream or sell them. The Transaction Cost Economics (TCE) is mainly concerned about this issue of individual choices of firms instead of industry driving forces. TCE doesn't explain how and why the overall institutional structures of industries may develop. However, according to Jacobides (2005), TCE can be considered as a starting point for understanding vertical disintegration. Even though the majority of the arguments in TCE are designed to explain the abandonment of markets and the focus to integrate activities instead. Vertical disintegration however cannot be explained by the inversion of these processes, as processes of institutional change are rarely symmetric (Jacobides, 2005).

On a traditional and historical basis many scholars have used the theory of TCE to explain the logic behind a firm's outsourcing decisions. Although TCE still applies to some degree to today's standards, there is a great difference in outsourcing solely for the purpose of cost reduction and a more cooperative nature towards it has developed nowadays (Hätönen & Eriksson, 2009). The use of the Transaction Cost framework of Williamson (1985) can be helpful in the analysis of relative costs and benefits of the internal or external handling of activities. In sum there are two distinct factors that ultimately should be considered when the dilemma arises whether to integrate (or stay integrated) or the activity could be better of being outsourced to a subcontractor. The first is relative strategic capabilities: meaning that the external supplier can outperform the initial organization. Second, the risk of opportunism:

is it likely for the external supplier to exploit the established relationship overtime with negatively affecting the initial organizations. Every so often external suppliers misuse their position in order to reduce their standards or perform pressure on higher prices (Johnson, Whittington & Scholes, 2011). Under the following conditions market relationships will often fail in controlling the balance between these dilemmas:

- Few alternative suppliers, leaving little room for negotiations between different external suppliers.
- A product or service, that is complex and dynamic by nature and creating full binding specifications within legal contracts is difficult and therefore bringing uncertainty.
- Risk of assets specificity, little value left if they are withdrawn from their initial placement.

There are several reasons why activities that are better of being outsourced than done in-house. However, are hindered by managers because of; fail to see that suppliers and taking it personally that they can be outperformed by smaller companies, failing to appreciate the intangible resources as management attention, not realizing that keeping everything in-house depletes the organizations energy more than necessary, and last is the fear of hollowing out the whole organization and therefore reduce the company's ability to differentiate its products. This problem mainly arises because of the fact that "companies had no firm basis for distinguishing core parts from commodities" (Venkatesan, 1992, P. 101).

In the perspective of the Transaction Cost Economics it is suggested that the costs that arise from these dilemmas and that can't be balanced out or controlled due the conditions stated above, can outweigh the initial benefits of outsourcing the activity. Meaning that although the external supplier would have been superior, it is not beneficial to outsource. The overall conclusion coming from the TCE standpoint is that if there are few supplier to choose from, the relevant activities are complex and of a dynamic nature, and if there are significant investments needed to perform the activity (assets specific), it suggested that integration of the activity is relatively better than outsourcing.

2.1.3 How to map the structure of the value chain

Since, we have established the definition of value chains and how the activities within the chain could change. We have a very important task ahead of us in conducting this research. Which is the actual mapping of the current stance of the value chain within the insurance industry and what we actually are examining.

Although, in essence the value chain structure is only a snapshot at that current moment in time and therefore in its own has no (or lesser) value in depicting dynamics within the chain. In this way, the value chain can be seen as a heuristic device to gather data (Kaplinsky & Morris, 2001). Also, not only do value chains differ between or within sector they can also differ because of varying national & local contexts. Therefore there is not one particular value chain methodology that can be followed. Every value chain is different in its own and has particular characteristics (Kaplinsky & Morris, 2001). Most firms will also be part of wider value network that is why the earlier explained value configurations where of importance to understand the inter-organisational links and relationships that are critical in creating the service (Johnson, Whittington & Scholes, 2011).

This Value network as earlier explained in detail, has related concepts in terms of actors, roles and value adding activities that can be used in order to describe and analyse a particular service offering in a very detailed manner (Kijl & Nieuwenhuis, 2011). Value networks often have specific organizations with agreed roles (Moller & Svahn, 2006). To gain the most in depth knowledge of the value chain of the insurance industry have to maximize the variety of profiles and heterogeneity of perspectives within in the industry, which will be more explained in detail in the Chapter Methodology. We therefore predetermine the organizations used in this study, to analyse the role of these actors in terms of the service they are offering and therefore determine which part they take up within the value chain.

By mapping the structure of the value chain in this way, we can analyse the value network of a specific service. Also, by including the main perspectives of these organizations regarding earlier mentioned developments, we can determine which is the most according way of dealing with these developments and alter anticipation upon them. By combining the results of our multiple case studies with the findings in the literature, we can determine specific barriers within the industry that hinder certain developments and propose measures to overcome those.

2.1.4 Consolidating remarks on understanding the value chain

According to the literature one of the most critical aspects to knowing what to outsource is the determination of the value allocated to a particular activity. Determining what activities are viable to outsource is often considered hard for companies because they don't know what activities strategically benefit their organisation most. Having conflicting priorities within one's organisation aggravates this. A lack of coordination regarding company's activities can lead to conflicting sourcing tactics within one firm. Therefore understanding what benefits your company and differentiates firms from one another should be a key objective for strategic management practices.

For firms that derive their value from a mediating nature of operations, like insurance companies do. The value is derived from the service and its capacity. Therefore the scale, composition and the capacity utilisation of their customers are the most important factors to take into account, good risk assessments is what the insurance companies most likely should do themselves or seek help with because it will determine the pricing they can set on their premium and determine their overall margins. Theory suggests that scale advantages can be gained by having common industry standards, as it facilitates mediating and increases monitorization on customer demands.

There is no one particular value configuration for one company. A single firm can be invested in several different activities with the use of different technologies. But where in particular these firms decompose is what potentially brings competitive advantage over their competitors. As a starting point the decision to outsource mainly came from a cost reduction standpoint. Companies often fail however to develop it an relationship of cooperative nature because of

- Relative strategic capabilities, companies often fail to see that suppliers and are taking it personally that they can be outperformed by smaller companies

- Failing to appreciate the intangible resources such as management attention, not realizing that keeping everything in house depletes the companies' energy.

- Lastly is the fear of hollowing out the organization and therefore reduce the companies' ability to differentiate its products. This problem mainly arises because of the fact that companies had no basis in distinguishing strategic from non-strategic activities. Which could lead to risk of opportunism by subcontractors.

By interviewing a variety of companies and including specialized firms and big insurance companies, we could gather a rather detailed overview of the value network at hand. This network has related concepts in terms of actors, roles and value adding activities that can be used in order to describe and analyse a general value chain structure of the key activities.

2.2 The changes within industries

The theory of the Value configurations and TCE is what underlies at beginning to understand the perceived structure of value creation and basic principles of integration and outsourcing. However, this basis is primarily focused on the individual choices of firms or firm level. So, to gradually shift towards a more industry based view of the organizational processes and their drivers and impediments, we need to go deeper into the field of industry evolution that involves the dynamic nature between integration and disintegration.

In the aspect of individual firms choices there are several choices companies can make or conditions that can be formed within an industry that have an influence on the initial degree of integration, the timing in which the changes between integration and disintegration takes place and also the direction of disintegration (Desyllas, 2009). Somewhat older studies already indicated that there was an extensive trend towards firms abandoning the more traditional integrated production and working towards the cooperative relations among independent organizations[2].

Therefore we see a change in the scope of a company, the degree of diversification in products and markets, a company does business in. This degree can be increased by several diversification strategies; such as market penetration, new products and services, market development, or conglomerate diversification (Ansoff, 1988). Another option to increase the scope is through the aspect of vertical integration. Which relates to a company taking on several other activities in the value network, and so becoming their own internal supplier or customer (Johnson, Whittington & Scholes, 2011). In the facet of vertical integration, the possibility to outsource several activities is highly considered. At this point an organisation 'dis-integrates' or in other words unbundles activities by subcontracting an internal activity to an external supplier (Johnson, Whittington & Scholes, 2011), as mentioned in the situation and complication (chapter 1.2) earlier.

In academic literature this disintegration and integration process can occur in two types of directions, in which the companies can essentially expand or unbundle their business in terms of existing product lines and markets and can take place in a vertical and horizontal matter (Johnson, Whittington & Scholes, 2011). Vertical (dis)-integration is concerned with the contiguous activities in the value network, and can be focussed around the integration

[2] These widespread trends where elaborated on in the works of; (Robins, 1993; D'Aveni and Ravenscraft, 1994; Gilley and Rasheed, 2000).

(externalizing) of input activities in the value network - such as; raw materials, machinery - and the outputs such as; transportation, distribution, repairs, and other servicing. Horizontal (dis)-integration is targeted on development (externalization) of activities, which are complementary to the current activities (Johnson, Whittington & Scholes, 2011).

Already decades ago Porter (1979) discussed the strategic importance of industry change exploitation. Suggesting that industry evolution in itself is already of strategic importance to firms or at least should be. Considering that evolution in an industry brings with it several changes in the sources of competition. Whatever trends there are currently in an industry in itself is not so important. However, it is far more critical to know if these trends affect the sources of competition in an industry. In particular if they influence the most important sources of competition (Porter, 1979).

2.2.1 How vertical disintegration occurs

The occurrence of vertical disintegration in an industry can have a profound effect on the nature of the participating firms in that particular industry, even so for the firms that prefer to be or remain integrated (Jacobides, 2005). Disintegration covers the unbundling of business functions, and services. In most cases this involves payroll, finance and accounting, and claims processing (Kedia & Mukherjee, 2009). As earlier stated the process of vertical disintegration is defined as: *"The emergence of new intermediate markets that divide a previously integrated production process between two sets of specialized firms in the same industry"* (Jacobides, 2005, P. 465). Several researcher arguably discussed that in order to cope with the competitive dynamics and to be responsive in hypercompetitive environments (as the insurance industry), organizations need to increase flexibility, be leaner and lay there focus more on their core competencies (Achrol, 1997; Jacobides, 2005; Schilling & Steensma, 2001). Also at firm level, heterogeneity within resources leads to differentiation in capabilities within firms therefore strengthening their position against some competitors and weaken them against others (Barney, 1991). This causes firms to specialize in the activities they have the highest rate of return in. The overall implication of these studies is that the reconfiguration of the value chains towards increased focus on core competencies generates greater value for firms as well as customers. Intra-organizational partitioning and disintegration occurs when firms perceive managerial benefits from untying "parts of the production process or service process, due to reliance on different knowledge bases or requisite managerial styles and incentive structures in each part of the value chain make organizational specialization attractive" (Jacobides, 2005, P. 477).

Industry evolution in the form of vertical disintegration can take a rather invisible role in the shaping of an industry, because regularly the underlying products, services and technologies remain the same (Jacobides, 2005). But it can nevertheless result in a radical transformation of the sector it occurs in. Meaning that the end result or the way in which the customer's perceives the service remains the same, but the way it is facilitated and delivered by the companies' trough the value chain has changed dramatically. We could also say that the concept of vertical disintegration can be seen as "an attempt by managers to improve the organizations performance by reducing the vertical scope of it" (Desyllas, 2009, P. 308).

So although at first sight there might not be any notably changes from the customers' perspective, but the way the value is delivered along the way may have changed massively. As an example, firms that have large variety in their customers' demands may be encouraged to use a looser coupled of activities to increase specialization in different activities as to increase the flexibility in possible configurations and thus are more capable of meeting the environmental demands more quickly (Schillings & Steensma, 2001). Furthermore, this ability to be flexible in the use of your resource increases in value if the demands upon a firm become more heterogeneous.

2.2.2 Vertical disintegration advantages

The occurrence of vertical disintegration may have three distinct sets of advantages that arise from the unbundling of value chain activities or formulated otherwise as the usage of a more loosely coupled network rather than in-house production. At first, disintegration along the value chain reduces the associated coordination costs with hierarchical governance. Second, it stimulates innovation and enables firms to focus on their core activities by reallocation of important resources. Third, the unbundling of activities gives rise to modular structures within the industry; which results in increased flexibility, speed and responsiveness related to customers' demands as well as cost reductions (Kedia & Mukherjee, 2009, p.254).

Advantages of reducing coordination costs: The reduction of coordination cost means that the coordination between the value chain activities needs to be simplified. This is a condition that needs to take place in order for those completing one activity within the value chain to convert to an external party for the next activity to complete. Thompson (1967) states that it is hard in the presence of reciprocal or pooled interdependence, to enable an activity outside the boundaries of firms. Subsequently, that for a market to emerge the interactions between that take place between the activities along the value chain should be minimized; therefore proposing a more modularized structure instead (Baldwin & Clark, 2003).

Advantages related to increased focus on core: It sounds logical for firms to withdraw themselves from segments in which they are not profitable. However, sometimes segments or activities are abandoned -although they were marginally profitable- due to focussing on the areas where a firms possesses a comparative advantage in comparison to its competitors in the industry. Therefore, showing expansion and profitable growth in the focus area even if they could be profitable in both activities, managers may choose to unbundle one activity to focus managerial attention and allocate resources on building the core strength of the firm (Jacobides & winter, 2005).

Advantages related to modularity:
Vertical disintegration has great affiliation with modularity in the supply chain or as modularity can be defined as “building a complex product or process from smaller subsystems that can be designed independently yet function together as a whole” (Baldwin & Clark, 1997, P. 84). In many industries, the earlier integrated hierarchical organizations have shifted towards non-hierarchical entities that are more transparent, interconnected, and modular (Schilling & Steensma, 2001). As earlier described in the value creation configurations, some industries are shifting or have shifted towards holding firms that are now profiled as network organizations. Considering that “modularity decreases the interdependence between components of products/services as well as organizations, activities can be split among different teams or divisions” (Langois, 2002, P. 23). For firms to increase their ability to survive, the building of dynamic core competences that increases the firm’s strategic flexibility (doing new things more quickly) becomes more important. Ways to do so are to increase the use of contingent workers and outsourcing (Hitt et al., 1998). Equally said by Nadler and Tushman (1999); firms will use more modular organizational forms when the environment, where they are located in, is changing rapidly.

It is interesting to know when it is likely for firms to adopt a more modular organizational structure and why they in some industries rely more on modular organizational firms than others. It begins with firms that an in any given industry begin to substitute loose couplings that outside of firm boundaries for activities that were once conducted in-house, the entire production/service system becomes increasingly modular. Indicating that the firms themselves are becoming more specialized. There are three key ways in which firms are substituting loose coupling for activities; Contract manufacturing, alternative work arrangement, and alliances may enable firms to specialize on their core or high-return activities and to link them with other firms activities.

Concluding thus far, reconfigurations of the value chain towards an increased focus on core competencies generates greater value for firms in terms of performance by reducing the scope of the firm and meeting increasing heterogeneous customer demands more quickly, however the scope of the company is not affected if the disintegration takes place in supporting activities. As a consequence of this firms need to reduce the coordination costs that takes place between activities. Disintegration lets the firms focus more on their core areas in which they can expand and increase profitable growth in these areas. This will potentially lead to a greater survival rate for firms that are located in a rapidly changing environment and building on their dynamic core competencies that will increase the firm's strategic flexibility.

2.2.3 The model of vertical disintegration and market emergence

The research of Jacobides (2005) provides us with a model and framework of when and why an industry is undergoing change in the form of vertical disintegration. It is concerned with how markets emerge and identifies and explains what the driving motivating factors of this process are. The framework of Jacobides (2005) is primarily focused on the causal dynamics of the factors instead of the generalizability of the findings in other settings; however, we are going to apply these factors on the Insurance industry as it is showing similar characteristics as the mortgage banking in Jacobides (2005). One character that speaks to the eye is that there are signs of vertical specialization, although with minor changes taking place in the product or service definitions so that the concept of vertical disintegration can be isolated. In this section of the paragraph we are going to extensively elaborate on the framework created by Jacobides (2005).

2.2.3.1 Motivating factors

The model starts off with two factors that are reckoned as the motivating factors that ultimately drive disintegration. The first is 'gains from specialization' the perceived benefits off specialization are considered as a major driver of disintegration. These benefits are coming from managerial advantages due to the separation of the production process. Organizational specialization gains in attractiveness, because of the dependence on distinct knowledge bases or necessary managerial styles and incentive structures, in the various parts in the value chain. Jacobides (2005), proposes that disintegration is mostly driven by firms in the industry that are wishing to take advantages of these gains of specialization and the second motivating factors realizing 'gains from trade' as caused by the differences in capabilities between the firms in an industry (whether they are upstream or downstream) or when firms are only capable of expanding in one part of the value chain, in combination with the former factor makes it attractive for firms to do business together and rely on the market desirables.

2.2.3.2 Enabling processes

These two particular motivating factors as discussed above are an incentive to put two enabling processes into motion. As a firm increases in size, firms can engage in 'intra-organizational partitioning', which can lead to a separation of the value chain activities within the firm into the creation of autonomous divisions. This separation can also lead to several divisions seeking to transact not with another division but try to find it externally, therefore driving the use of the market. Likewise, whenever a firm can´t rely on their own capabilities to help them grew in all parts of their value chain, the possibility arises for them to commit to an outside party to help them fill in their lacking parts in the value chain. This so-called 'vertical co-specialization' becomes a very profitable perspective to pursue. Especially technology vendors are trying to push for a disintegrated state in the industry by encouraging industry participants into specialization by turning latent gains from trade into identified gains, meaning that they are showing their increased value in the disintegration state.

2.2.3.3 Necessary conditions

These enabling processes eventually result in market emergence when two necessary conditions are met. At first there is a reduction needed of the interdependencies between value chain activities in order for them to work separately. Thompson (1967) argues, that it is hard to externalize an activity when the activities are in the presence of reciprocal or pooled interdependence. Therefore the first condition that is necessary for the market to emerge is the 'simplification of Coordination'. However, for disintegration to occur in the value chains another conditions needs to be met. The second condition is the 'standardization of information', meaning that the information at hand must become simple, transmissible, and also standardized in order for it to be universally understood. This helps to contribute on the increasing ease of information sharing and therefore support and even help create new intermediate markets as when this condition is met, information can be certified.

The above framework provides an explanation about the nature and the overall drivers of vertical disintegration in an industry. It concludes with that the conditions of coordination simplification and information standardization need to be met in order for markets to emerge. As for this study the framework can be used in order to seek for these conditions and driving factors in the insurance claim handling market. It therefore provides a very good guideline for an inductive study towards the experienced causation of switches in value chain activities in the insurance industry.

2.2.4 Potential scenarios why to vertical disintegrate

As earlier stated in 2.2.2. There are several advantages to a more loosely coupled structure of activities within an industry. So within the scenario of a highly competitive environment it is a good option to switch towards a more disintegrated vertical structure to cope with the dynamic nature of competing. More so, by specializing many other firms within the industry have developed more in depth knowledge and skills regarding one or more particular activities out performing fully integrated structures within the value chain, with regards to gains from specialization. Also these specialized firms have developed towards great investment infrastructures and therefore stimulate innovative capabilities within the industry of the value chain, which potentially leads to gains that can be made from trade as differences in firm capabilities arises. These advantages that can be obtained within the industry are well beyond those that any integrated firm could obtain singularly. Firms who compete in an environment that is changing rapidly tend towards a more loosely coupled structure of the industry mainly because they can't rely on singularly on their own capabilities any more. The possibility arises for them to commit to an external provider of that activity them fill-in the lacking parts of the value chain. Furthermore, in industry where there is an increase in heterogeneous customers' demands a disintegrated structure would enable the firm with better surviving capabilities. Leading up to the fact that disintegration more likely will take place when there is a reduction in task interdependence and standardization of information takes place. This will allow for activities to be more easily performed outside of the company as well as that information can be easily transmitted between firms and standardized in order for it be universally understood.

In conclusion the possible scenarios add up to:

- **Dynamic environment** that changes rapidly, that allows for a more dynamic approach in value chain activities (increased need for strategic flexibility).
- **Availability of Specialized firms**, which led to differences in firm capabilities therefore developing gains of trades to be made within the industry.
- **Increase in heterogeneous customer demands** within the industry that requires an increase in speed and responsiveness to market developments.
- **Reduction between the coordination** that is needed between activities in order for it to be performed individually, and standardization of information in order for it to be easily understood and transmitted between different firms or departments.

2.2.5 How vertical (re) integration occurs

The counter aspect of vertical disintegration is of course vertical integration, which is the presumed starting state of an industry. Meaning that it is assumed that actually all industries start with a vertical integrated architecture, which then can evolve towards a disintegrated state and back again. The process of vertical integration and disintegration is therefore presumed to be an on-going and dynamic process and largely comes down to the vertical scope and boundaries of a firm in an industry. However, an extensive list of researcher suggests that many products are tending towards modularity overtime, often resulting in developments in the industry towards specialization (Sanchez & Mahoney, 1996; Langlois, 2002; Jacobides, 2005). Within these field the concept of ´vertical architecture´ of an industry comes in to play here and is defined as "the scope of firm and the extent to which it is open to final and intermediate markets; it describes the configurations of transactional choices along a firm's value chain" (Jacobides & Billinger, 2006, P.249).

For many firms the dilemma arises whether to 'make' or 'buy' inputs, and transfer the outputs downstream or sell them. As we already discussed the TCE is mainly concerned about this matter although its analysis is often conducted at a sub firm level, thus on the margins of individual firms instead of the industry driving forces. Although, the majority of the arguments in TCE are designed to explain the abandonment of markets, therefore focus on integration instead. Yet, the inversion of these processes will not explain vertical disintegration, as processes of institutional change are rarely symmetric (Jacobides, 2005).

Therefore it is key to know under which conditions the disintegrated state is tending towards integration again. As the study of Fixson and Park (2008), argued that product architecture could migrate towards modularization in the long run, however there is a possibility for at least a temporary reversal of this process. This is a clear indication that the process between vertical disintegration and integration is a dynamic process, and that the development of the value chain isn't solely moving into one direction at once. Although in their example of the Shimano case it is the product architecture that switches from disintegrated towards integration again, though organizations could have the tendency to restructure their organizational structure to match with the product architecture (Sanchez & Mahoney, 1996). This is however not a determined as generally applicable but rather something that might occur under some circumstances.

2.2.6 Advantages to integration

The fact that we focus or call it reintegration comes from the suggestion of Jacobides (2005) that industries are considered to be integrated from the beginning in most cases, therefore the question whether firms will integrate or not is not considered relevant in their view. This suggestion is also supported by Gilson, Sabel and Scott (2009), because in view of the twentieth century a lot of predominant firms in industries where in the pursuit of achieving dramatic economies of scale. This was obviously done by the increase of mass production of standard goods and also with machinery that was used specific to that the production of those goods. Further vertical integration of the value chain (up and downstream) was therefore used as a response towards potential threats that could disrupt the production process. Considering that in order to achieve these economies of scale, specific investments in the production process were needed meaning that they have limited or no value other than to what they were dedicated to. Potential disruption in this process could be dramatic for the flow of production, as highly frequent transactions would take place. Vertical integration of the entire value chain (up and downstream) was there for a measure to ensure that the specific investments that were made for the production process could not be disrupted.

In some cases even though a recombination of activities may be possible, some combinations of activities done internally may work better together better than others. Due to optimization of components for a particular value configuration, an integrated system might achieve performance advantages over a disintegrated state. When there are high levels of this synergistic specificity it can act a strong force against the disintegration of activities within firms (Schilling & Steensma, 2001).

However, we have to address the fact that vertical integration within a dynamic environment really suffers from critical inefficiencies compared to a disintegrated state. This is mainly due to sub-optimization instead maximizing their potential in terms of focusing on to many areas (Achrol, 1999). It therefore lacks in a firm's speed and responsiveness to signal from the market and customer demands. Hence any real advantages of holding vertical control are eroded by the costs of this inflexibility to handle correctly and inertia (Achrol, 1999). To sum this up: Simply put firms tend to produce their products/services internally rather than finding an external supplier if the threats increase from using the external market (jacobides & Winter, 2005). Usually this is caused by problems of asymmetry in information or due to the risk of asset-specific investments.

2.2.7 Scenario's as to why to stay integrated or integrate

The classical way of dealing with external uncertainties is to vertically integrate activities. It is a classic example within the theory of transaction cost of economics of – insourcing - as we might call it and is more efficient if the relationship between buyer and seller is characterized by:

- Asset specificity, when certain assets are pre-determined for the use of an (single) activity, the corresponding performance advantage arising from that work as a restriction and discourages the use of a disintegrated setting.
- Increase in uncertainties, caused by information asymmetry and threats from the external markets.
- High transaction frequency, to ensure a stable inflow of inputs in order to control and achieve economies of scale.

When a firms has assets that are specific to transaction, accordingly there are performance advantages (in the form of transactions cost savings) that come with. These performance advantages and cost savings with regards to integration of these activities act as an obstacle to use a disintegrated state (Coase, 1937; Williamson, 1985). "Transaction cost economists pose that the risk created by asset specificity is one of the major forces encouraging the integration of activities within firms" (Schilling & Steensma, 2001,P.1155). What will capture this view in a better way towards today's standards is the consideration if firms even have the opportunity to choose between being integrated or being specialized instead or are more or less forced in one direction.

2.2.8 Overview of criteria to (dis) integrate

Figure 2 shows the above-discussed criteria when firms tend towards a disintegrated state of value chain activities opposed to an integrated or tightly coupled system. The criteria mentioned for the disintegration of activities are of a very dynamic nature with increasing interactions between multiple firms and therefore resemble a cooperative nature of doing business in which the industry is developing. However it is suggested that the biggest obstacle for firms tends to be the risk that is created by the risk asset specific investments as the key incentive to integrate activities within firms. In practice we might see that even though the industry is setup for disintegration to happen or to increase further they might hinder themselves from gaining advantages of flexibility due to high levels of asset specificity embedded within their activities.

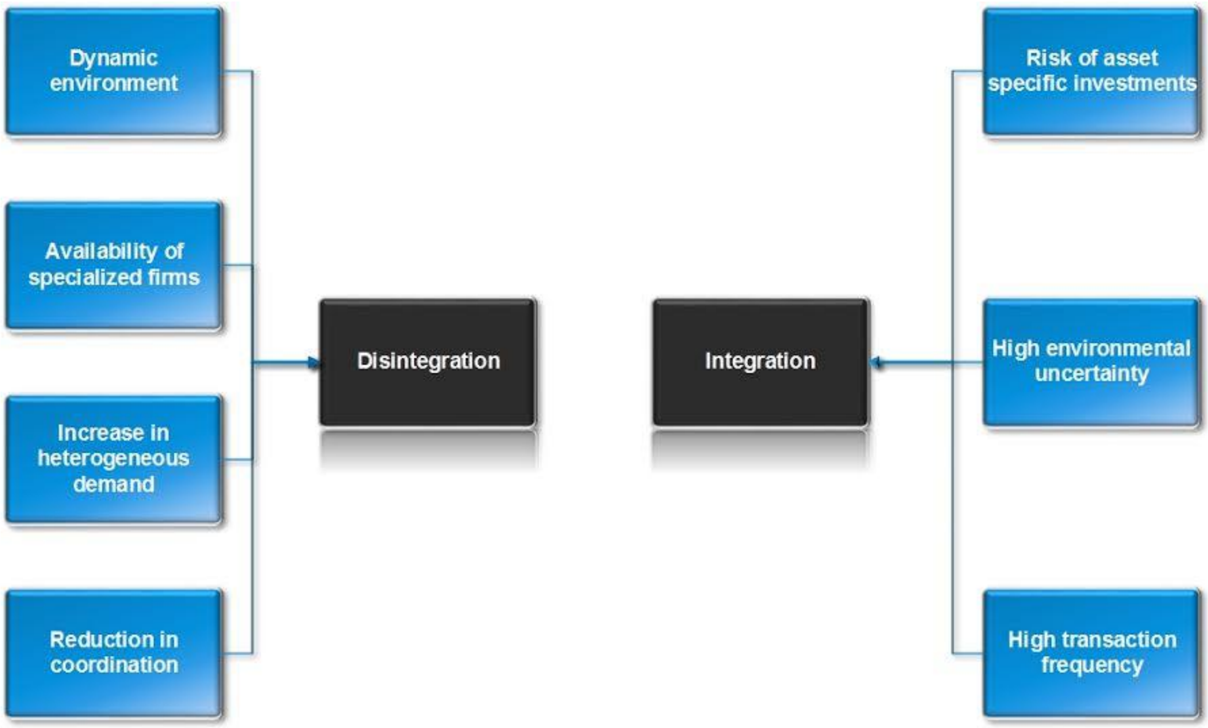

Figure 2: Overview criteria whether to disintegrate or integrate value chain activities

2.3 The strategic renewal of the value chain.

In the beginning we started off with the individual aspects of the value chain and value creation and the basic underlying ´make´ or ´buy´ decisions that are perceived as the beginning of understanding why and how vertical disintegration and integration takes place. The subsequent chapter leads us to the understanding and defining of those particular processes and the conditions under which it might occur in the industry. In this next chapter however we have to bring it back to an individual firm-level perspective to help us conclude why these particular firms in the insurance industry are searching for ways to outsource their claims handling processes and therefore are strategically renewing their activities. To assist us in this matter we need to find out when firms are enabled or inhibited to strategic renewal in their activities.

In overall the literature on strategic management has had an extended list of variables that studied the success and failures of firms that experienced changing environments and needed to adapt (Burgelman, 1983a; Ginsberg & venkatraman, 1992). Inertial forces cause an organization to fail to adapt adequately to its environment and tries to maintain its current set of activities until the selective forces become so strong that an abrupt transformation becomes necessary in order for the firm to have a chance for survival (Hannan & Freeman, 1977; Huff, Huff & Thomas, 1992). A situation as such is often accompanied by high risk of failures because of the necessity of making choices rapidly and threat-driven decisions under force (Brown & Eisenhardt, 1997; Gilbert, 2005; Romanelli & Tushman, 1994). This can be countered by enabling strategic renewal (Brown & Eisenhardt, 1997). Albert, Kreutzer & Lechner (2015) therefore define Strategic renewal as: “the incremental process through which an organization continuously adapts to the environment and explores opportunities to invoke change in its activity choices and outputs (Floyd & Lane, 2000)” (P.9). However, later on we are going deeper into the subject of overcoming organizational inertia and its incentives.

Firms can however only make choices about activities when they at least have partial decision rights over an activity (Aggarwal, Siggelkow, & Singh, 2011; Pfeffer & Salancik, 1978). It is therefore key that the decision rights of a company belong to a focal organization, largely for its behaviour and output can not only be determined by an external party (Albert, Kreutzer & Lechner, 2015).

2.3.1 Outsourcing as a renewed focus on business activities

There are presumably intertwined reasons why insurance companies are shifting towards the strategic step of outsourcing their ‘claim processes’ and therefore are engaging in Business process outsourcing. The question remains if the industry change in the insurance industry is so significant that indeed new markets are emerging, and would therefore lead to a strategic and long-term engagement or that the outsourcing of such processes are solely for the purpose of short-term costs savings. Also if interdependencies in an organization’s activity system lead to or prevent the renewal of the strategy pursued by the company (Albert, Kreutzer & Lechner, 2015). Their research examines ‘the paradox of the incremental process through which an organization continuously adapts to the environment and explores opportunities to invoke change in its activity choices and outputs’ (Albert, Kreutzer & Lechner, 2015, P.2).

Several, somewhat older studies, indicate that short-term pricing still appears to be the most dominant reason to outsource and offshore (Corbett, 2005; Doig, Ritter, Speckhals, & Woolson, 2001). The outsourcing and co-development of the claim handling processes could be seen as an architectural innovation “a change in the relationships between a product’s components that leaves untouched the core design concepts of components” (Brusoni, Prencipe, & Pavitt, 2001, P.598). The topic of outsourcing is of course not a new topic but is still undergoing a revolution of development, which has been going on for decades, changing the way in which companies compete in diverse industries as indicated by the study of Hätönen & Eriksson (2009). Outsourcing is still increasing in terms of strategic relevance to the overall success of firm, but is also growing in volume (Corbett, 2004).

However, there are dynamic limits of specialization as described by Cacciatori & Jacobides, (2005). In which they explain that “The gap between what the vertically specialized system can produce, and what a changing environment demands, sets in motion a process of experimentation with integrated service provision, which is strengthened by broader social forces such as the deinstitutionalization of profession, or changes in demand structure” (Cacciatori & Jacobides, 2005, p.1851). Reintegration within in an industry is required when new capabilities that span across the entire value chain are needed, and also when the individual firms are trying to protect their position within the industry again and expand their ground (Cacciatori & Jacobides, 2005). In overall the papers of Cacciatori & Jacobides (2005) and Jacobides (2005), provides an empirically grounded, dynamic framework that can be used to explain the industry –wide shifts in the structure of the whole chain, and the changes in a sector’s vertical architecture. The role of technological change in industry evolution is one facet of technology that has grown in importance in terms of the part that product structure carries into effect the competitive position of firms in an industry, and therefore has started to become an influence on the industry structure (Fixson & Park, 2008).

2.3.2 Overcoming the impediment forces of organizational inertia

Other than driving forces to vertical disintegration there are numerous ways why an organizations or systems are impeded by inertia that doesn´t allow them to fully adapt to the demands of their environment (Holland, 1994; Kauffman, 1993; Leonard-Barton, 1992). However, there are mechanisms present in the environment that can counter this inertia to increase the pressure for flexibility and act as incentives to change. The first is when industry standards cause a reduction in the degree to which integration improves production. Secondly, a high rate of technological change as innovation starts to become a primary driver of competition. Thirdly, a high degree of competitive intensity as it becomes more important to create a closer fit with the demands in the environment. The increase in competition reduces the time to conduct necessary changes and therefore pushes firms within an industry to overcome their inertia; this creates a need for other firms in the industry to change as well as it provides superior strategic flexibility and becomes vital in surviving (Schilling & Steensma, 2001).

Furthermore, synergistic specificity at the organization level is manifested in performance increase (or cost savings) by the use of the integration of specific activities or resources. When assets are determined specific to a transaction, the performance advantage that is delivered by the integration of that asset is working as an obstacle and depress the use of a more loosely coupled setting. This specific assets can be made nonspecific by specifying and standardizing the nature of an activity, this enables the parts of the system to effectively interact so that it no longer works in only one particular configuration (Schilling & Steensma, 2001). However, this may only applicable in certain situations.

As earlier stated some firms are hesitant to adapt to the changing environment because it is a requisite for them to leave core capabilities that historically yielded an advantage to their firm (Leandard-Barton, 1992; Desyllas 2009). Even if the managers accept change uncertainty rises about the right path to take (Greve,1999; Hannan & Freeman, 1984; Stinch-combe, 1965). However, there are several ways in which this inertia is limited and which enable a more vigorously adaption of the firms environment. The first is rapid technology change and the second is competitive intensity. This factor of technology change has often been used as one of the most critical factors that lead to the use of modular organizational forms (Baldwin & Clark, 1997; Snow, Miles & Coleman, 1992). (Gilson, Sabel & Scott, 2009) also state that in industries where rapid innovations takes place are not behaving in the way as traditional transactions cost theories expects. Mainly caused by firms recognizing that they can't keep up with cutting-edge technologies in every field themselves any longer.

2.3.2.1 Increasing technological capabilities

Nowadays it is very common to have large technical systems that are made up out of many interacting components. The development of Information technology made it possible and easier for larger technical systems to exist that can provide a faster flow of information and material (Baldwin, 2015). Also as information and communications technology has grown in importance and become widely recognized, the firms are confronted with major differences between what is necessary to exploit these technologies to its full potential and their current stance in it. The outsourcing of IT has therefore risen in strategic importance and very much grown as a way to close this gap (Diromualdo & Gurbaxani, 1998). The increase of technological capabilities of firms has therefore an enabling effect on the strategic renewal of firms. In the case of rapid technology changes, it is preferable for firms to have the organizational flexibility to quickly respond to the changing demands (Hitt et al., 1998; Lei, Hitt, & Goldhar, 1996). Next to that, the employment of more loose coupling of activities to enable for a quick recombination of heterogeneous inputs into multi configurations may be even increased more by the high speed technological change, it may also increase the attractiveness of specialization for a firm (Schilling & Steensma, 2001).

Also in a highly competitive environment, firms must stay close to what the environment demands in a very responsive matter in order to increase their survival capabilities. Therefore, the increase in competitive intensity may push several firms within an industry to overcome their inertia and adapt more quickly, an organizational form that is more capable of competing within the increasing level of heterogeneity. Very importantly as well is that the increase of shared standards within an industry reduce specificity and therefore provide firms with a form of embedded control that reduces monitoring, search and enforcement costs and there for allow firms to efficiently deal with transactions between one or multiple partners at the same time (Sanchez & Mahoney, 1996). This enhancement of control and cost reduction will be an incentive for firms to disintegrate activities and pursue further advantages of flexibility when demand heterogeneity is at high levels within their industry. By nature, firms that are active in industry with proper strict standards will be better at reacting to heterogeneous demands in their environment (Schilling & Steensma, 2001). Thus, high-speed change may encourage firms to become more specialized and to utilize loose coupling to obtain other necessary production activities. This argument is widely supported by evidence that firms use alliances to gain technologies more quickly than they could develop them in-house (Harbison & pekar, 1998; Heinsl, 2000; Powell et al., 1996). As mentioned previously, organizational modularity can enable a firm to specialize in fewer activities, and such specialization may be particularly attractive when an industry has both heterogeneous demands and is under heavy price pressure (Schilling & Steensma, 2001).

2.4 Overview criteria

Figure 3 shows an overview of the criteria that (potentially) influences the degree of vertical (dis) integration within an industry. In conclusion these criteria, Dynamic environment, Availability of specialized firms, Increase of heterogeneous demands, and a reduction in coordination between activities. All potentially influence a change in firms strategies towards an increase degree of vertical disintegration within an industry. Assets specificity, High environmental uncertainty, High transaction frequency all potentially draw more towards in industry vertical state in which vertical integration is more present. However, for some industries (that still are integrated from the beginning) these factors act as inertial forces to stay integrated. The incentives act as catalyst in order to overcome these inertial factors and enable forms to strategize towards a more disintegrated state within the industry overall.

As a final but important remark on the overall list of criteria is that we already established the need for a dynamic view in these processes and factors. Meaning that on both sides, factors can be present at the same time within the insurance industry that influences the degree of vertical state.

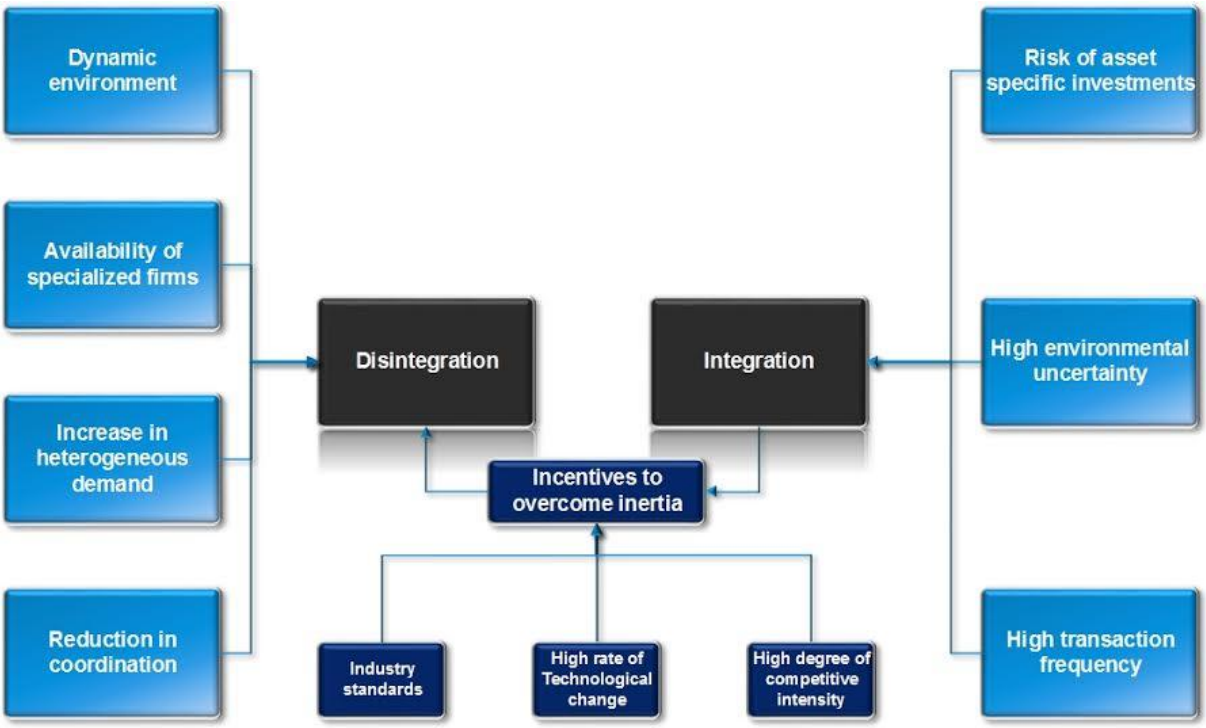

Figure 3: Factors, that serves change towards the appropriate degree of vertical (dis) integration in the insurance industry.

3 Methodology

As discussed in our theoretical framework, the way and why value chain disintegration might happen within an industry has become clearer and can function as criteria for determining the developments within the insurance industry. We have also examined forces of organizational inertia that could potentially cause slower/hinder development towards a disintegrated industry state and incentives to overcome this within the insurance industry. Main aim of this paper is to develop an overview of identified factors, which either drive or impede the value chain structure of the insurance industry towards an (dis) integrated state. But what is the best way to establish such an overview?

Most concepts of theoretical interest aren't directly observable, which is a problem of measurements in social sciences. However, we can observe assumed factors that are connected with these concepts (Gering, 2012). According to Jacobides (2005) who specialises in industry evolution research, stated that the best way to understand and analyse the emergence of vertical (dis) integration is by the use of inductive study. Meaning the approach you take to understand the concepts that are not directly detectable "an inductive approach begins with a set of empirical measures that are thought to capture elements of a concept, and then arrives at an ultimate indicator (or indicators) by looking at observed patterns in the data" (Gering, 2012, p.173). By finding similar patterns within the cases we can determine which factors our overview should consist of that are relevant within this industry.

3.1 Research method: Qualitative interview studies (comparative case study)

In academic literature there are various methods of doing research. According to (Verschuren & Doorewaard, 2007) some often recommended studies are: Surveys, Field experiments, Case study, Funded theory approach, Desk research. Yin (2009) suggests that the research method chosen is depended on three conditions: 1. The type of research question, 2. The control an investigator has over actual behavioural events, 3. The focus on contemporary as opposed historical phenomena (p. 2). Each method of course corresponding with different methods of collecting and analysing data and their advantages and disadvantages in particular conditions.

As we mentioned in the introduction of our study the research of vertical disintegration in particular compared to integration is limited. We therefore conduct this research with an exploratory nature, as it will contribute to the theories of vertical disintegration and also integration emergence in order to further explore what the current general factors are that drive and/or impede the changes in value chain structure within the insurance industry (Neuman, 2010; Verschuren & Doorewaard, 2012).

In this paper a comparative multiple case study is conducted in order to make the research more potent and compelling than by the use of a single case study (Yin, 2009). We base our study around the observations representing a single point in time performing a cross section (Cross-sectional study) of the matter we are researching (Babbie, 2010). It would arguable have been a better way to perform a longitudinal study for the subject to link the content, context and processes of change over time, as it would create a “scope to reveal the multiple sources and loops of causation and connectivity so crucial in identifying and explaining patterns in the process of change” (Pettigrew, 1990, p.271). Longitudinal studies however aren’t always practical or feasible which brings light to individual research projects. However, (Pettigrew, 1990) suggest to keep in mind several decision rules as to focus more on extreme situations, or critical incidents and using higher levels of experience of the subjects that are being researched. Concerning this study the introduction of the Solvency II regulations beginning of this year can be seen as a critical incident within the insurance industry or even in the financial sector altogether.

In social science research, typical units of analysis include individuals (most common), groups, social organizations and social artefacts (Babbie, 2010). Interviewing the individuals who contribute, influence, and therefore play a key role in the processes that we are researching can make the implicit knowledge that underlies these research topic(s) more explicit. The units of observation are the individuals that play a role in the strategic process of the firms. This is however often confused with the unit of observation, which is the on the level of the actual data collection. The main unit of analysis are the organizations and how they work with regards to their value chain activities in the insurance industry. These will be analysed on the predetermined criteria’s within the theory enclosed in the interview protocol and will be gathered through interviews for the use of this case study. Qualitative interviewing is one of most used methods in qualitative data collection in order to produce knowledge (van Aken, Berends, & van der Bij, 2012).

The following figure (3) outlines the particular steps in the conduction of this research paper. “A research design is the logic that links the data to be collected to initial questions of the study” (Yin, 2009, p. 24.).

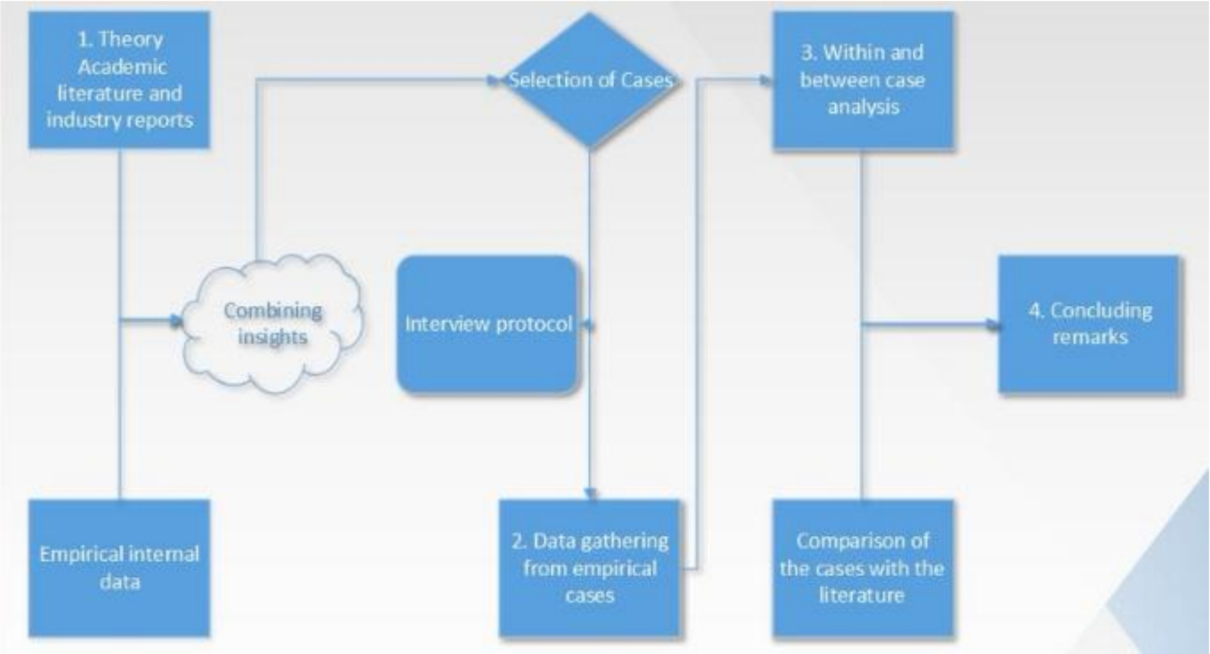

Figure 4: the overall research design

3.2 Data collection

3.2.1 Document analysis

Information will be gathered by using several methods. At first a document analysis was conducted to explore the current situation and create a starting point within the exploration of theories regarding vertical disintegration. As no documents existed yet on the vertical disintegration in the insurance industry, the document analysis was limited to documents giving a general introduction of the industry and current perceived trends within. Also the used documents were for internal reporting use only and not available for public exposure, therefore we will classify them as ‘personal communication’. Therefore the document analysis was mainly used as a global orientation and to combine insights on finding a theoretical starting point.

Particular use of document:	Document used:
Company orientation	Van Ameyde group, extensive (2012)
	Introduction to corporate identity (2013)
	Service leaflets (2013)
General introduction to the industry and current perceived trends and directions	Customer satisfaction and efficiency (2014)
	It divisions (2014)
	Solvency II (2014)
	Third party liability, the need for speed (2014)
	Business process outsourcing (2014)
	Bucking the trend of rising claims costs (n.d.)
	Van Ameyde's reactie op informatie verzoek Independer (n.d.)

3.2.2 Semi-structured interviews

The interviews were conducted with individuals, which have a role in the strategic process of the firm. We therefore have set up several characteristics on deciding upon whom to interview. As the strategic process of the firms was of great importance the following functions where outlined in order to help find suitable interviewees for the research.

- Board of Directors (RvB)
- CEOs of divisions / business units / companies
- Operators
- Facilitators
- Advisors and assistants
- Consultants and auditors

These interviews are the main source of our collected data. The individuals where interviewed face-to-face, using semi-structured interviews with open questions regarding the key research topics, which are divided in several sub-questions. The template can be found in appendix 1. First of all, the interviewees where asked to give some background information about their function and especially on the years of experience at their current firm and insurance industry. As it is important to reflect on the experience levels of the interviewee also considering the fact that questions regarding changes in the past and predictions of the future will be asked.

In total the study consist out of six cases, a single firm represents each case. We initially planned multiple interviews at each firm. This was done in order increase the reliability and let different perspective within the same firm come to life (van Aken, Berends, & van der Bij, 2012). However, due to the circumstances of interviewing 'high ranking' managers the available time to speak with multiple individuals per firm simply wasn't there from their perspective. To reduce the limitations and any biased views on the study we managed to have at least three established insurance companies or insurance brokers (as they mostly have the same activities) to provide us with an interviewee to conform a triangulation of observers on the bases of the matter. As these multiple observers will also bring different backgrounds, perspectives and social characteristics to the table (Neuman, 2011).

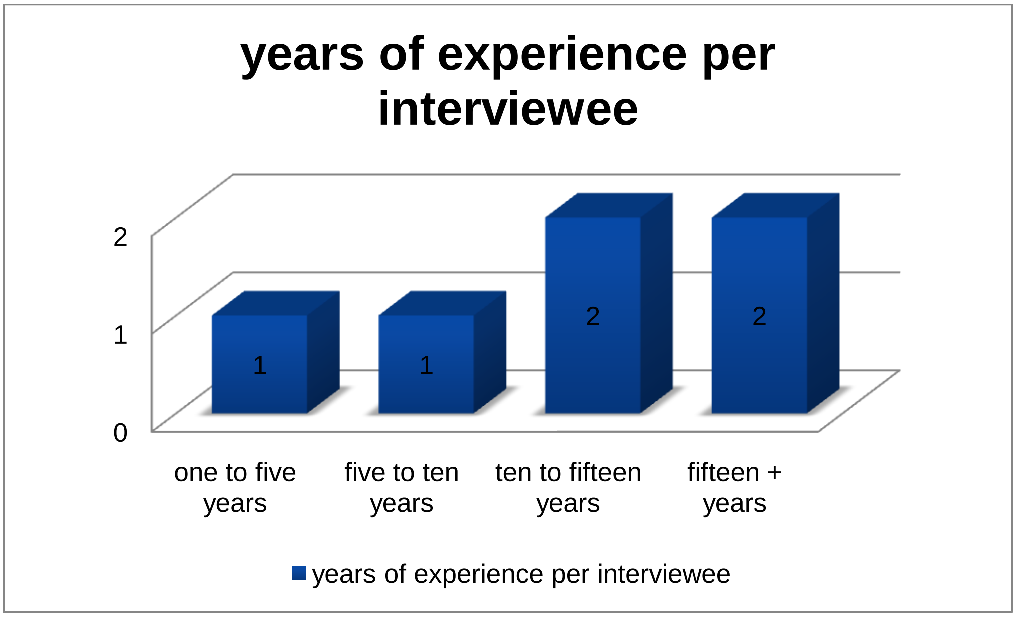

Figure 5: depicts the years of experience within the insurance industry of the interviewees.

The figure above (4) shows that four interviewees had more than ten years of active work related experience within the insurance industry. The spokesman of 'Het verbond van verzekeraars' had 3 years of experience however this doesn't affect his credibility due to the fact that he is backed-up by an organisation that does heavily research of the industry themselves and is therefore provided with current and past related information.

3.3 Case selection

The multiple case selection is based upon a small sample with purposeful sampling in order to maximize the variety of profiles and heterogeneity of perspectives within the industry. Also for depicting the current value chain structure that the industry withholds. The cases are selected through purposefully sampling (Babbie, 2010). We therefore used similar criteria as Jacobides (2005) for his study to create a better and broad understanding of the industry activities:

- Different sized companies.
- Different strategies and scope.
- Firms with perhaps various roles in the industry.

By making a selection of the most different cases in the industry, we can increase the generalizability of our conclusions (Van Aken, Berends & van der Bij, 2012). The sample will consist out of six cases, four of which are current clients and two could be considered as potential client. Companies used within this study:

Company name	Criteria
Independer	Relatively new technology vendor within the industry.
Intrasurance	Relatively new technology vendor within the industry.
Aegon	Established insurance company.
Klaverblad Verzekeringen	Established insurance company.
A.S.R.	Established insurance broker.
Het Verbond van Verzekeraars	The Dutch Association of Insurers represents the interests of private insurers operating in the Netherlands.

3.3.1 The setting

This research investigated six different cases and gathered its results through semi structured interviews within the Dutch insurance industry. In order to provide further information regarding the setting of our study, we described our own understanding of insurances. We therefore developed our own definition of an insurance 'product': An insurance is a contract, represented by a policy, which offers protection against the risk of financial losses in exchange for monetary compensation called premiums.

3.4 Data analysis

The second to last part of this methodology chapter consist out of the data analysis. For the data analysis it is of importance to determine key terms that need to be analysed. The ending chapter of the theoretical framework (2.4) provides the overview of these key terms. The collected data will be transcribed and analysed accordingly to the topics. The processing of the qualitative data collected can be done by for instance coding and categorizing or concept mapping in order to discovering patterns in which you can base conclusions of (Babbie, 2010). As earlier mentioned we will be looking for patterns that are appearing across several of the observations, which are represented by the cases.

3.4.1 Within and between case analyse

The cases are treated in a hierarchical method, meaning that the cases will be analysed independent of each other at first. “Within-case analysis typically involves detailed case study write-ups for each site. These write-ups are often simply pure descriptions, but they are central to the generation of insight” (Gersick, 1988; Pettigrew, 1988, as cited in Eisenhardt, 1989, P.540). In general this will enable researchers to develop the unique patterns embedded within the cases before the researchers advances towards a generalization of the patterns that are observed across the cases (Eisenhardt, 1998).

Followed in succession by an analysis comparing the results retrieved from the within-case analysis on a more abstract and higher level, resulting in a search for cross case patterns to help find explanations for the similarities and differences between the cases (Eisenhardt, 1989; Verschuren & Doorewaard, 2007). In order to do so the results (chapter 4 &5) begin with a structured overview of the categories displayed in the theoretical framework (therefore also the related Interview protocol), on which the cases will be discussed. The gathered data will be used in order create and display an overview of the current value chain structure as experienced by the interviewees. By labelling the individuals firm activities to the overall value chain structure we can create an overview of the industries activities and corresponding developments. The interviewees observed vision on drivers and impediments that lead to (strategical) changes in activities in the value chain, the time of occurrence and their potential developments in the near future, and the affects of Solvency II. Considering that the process is of an inductive nature, we are taking measurements and focus on developing our current concepts at the same time as we collect the data (Neuman, 2010). Lastly will be the validation between the gathered theoretical and empirical perspectives, on which the conclusion will be based. From the use of this analysis a conclusion can be drawn regarding the degree of vertical (dis) integration within the industry as well as its drivers and impeding factors.

3.5 Context background information: Company profile of Van Ameyde

Background information on Van Ameyde is provided due to the increase the contextual understanding of why the current development is of importance to them and which section of the playfield they occupy themselves. Also because the main topics of interest for Van Ameyde were of external nature and are therefore not included further in the research.

Van Ameyde group is one of the leading companies in Europe in the highly competitive insurance market, and was founded in 1945. After the ending of the Second World War, Van Ameyde was responsible for handling the damages of Army vehicles. Initially, this resulted in a company specialised in vehicle damage assessment. Followed by, an extension of their claims adjusting activities to property, personal injury and liability claims, as well as marine surveying. With the introduction of the Green Card system (international motor insurance certificate) in 1953, they were enabled to help motorist claims restitutions from foreign parties. Van Ameyde became the market leader in international claims management.

One of the major recent developments at Van Ameyde is the takeover of the entire claims department of insurance companies. This new type of service in the Van Ameyde´s Portfolio of business process outsourcing is supported by ECHO/SAP – their international claims management system. Dutch insurance companies where the first to engage in this seemingly strategic step. Subsequently, however, an increasing number of foreign insurance companies are showing interest in taking this strategic step as well. So, to further consolidate its market position, throughout Europe the Van Ameyde group is pursuing the development of its internet-based proprietary IT system for insurance claims processing.

The Van Ameyde group is active in the financial service industry and offers a broad variety in claims management services that are supported by their IT platform ECHO (Europeans Claims Handling Optimization). Van Ameyde helps and supports their clients to optimise their claims processes, resulting in demonstrably reduced claim cost and an overall improved policyholder satisfaction, while facilitating compliance with domestic and international rules and regulations, such as the Solvency II compliance. To bring into perspective what lies at the base of the interest of Van Ameyde in this field.

4 Results of multiple cases

Within-case analysis

This chapter presents information about the results that are gathered from the investigated firms. The purpose of this chapter is to reflect on the gathered data and put it into the context of the study. The data of the cases will be structured and elaborated on in order to come to an overall overview of the factors that drive or impede vertical (dis) integration and concluding remarks on the matter at the end of this study. This will be done by analysing the cases independently of each other at first, generating single case reports that ensue the structure below. Followed in succession of chapter 5 by cross case analysis where we establish the current perceived structure of the insurance industries value chain and proceed on to describe the similarities and differences between the cases. Chapter 4 and 5 together form the Results of this study.

The results of the single case reports will be structured as follows:

- Company description. As a means of introduction to the company.
- Perceived key activities of the investigated companies. To provide a general description of key and supporting activities the firm is involved in order to determine their role within the value chain of the insurance industry.
- General developments in the industry and firm activities. In these paragraphs we will briefly state the developments as perceived by the firm (interviewee). We go in to detail on the changes within the industry and of the firm's activities in the last five years and why they changed at the time if at all. Also what the facilitating factor of change is within these developments.
- Perceived shifts with regards to the vertical/horizontal structure of the value chain within the insurance industry. We try to untangle trends concerning the out/insourcing of activities, what factors influence this in terms of enabling or hindering these developments.
- The possible and perceived effects of the Solvency II regulations have or will have on the industry and possible on the vertical structure of the value chain of the firms.

4.1 Independer

These case study results are based on a single interview with the 'Manager Volmachten' of Independer. The interviewee currently has worked for over 5 years in this particular function at Independer and before that occupied several other functions within the insurance industry.

4.1.1 Company description

Independer started in 1999 as means of creating a more transparent financial world by its founders. By helping clients compare insurance products in order to find the most suitable products. Clients can search for a particular insurance product they want and will be provided with a clear overview of possible products sorted by price. Thereafter they also became an intermediary for several insurance clients that liked the idea of comparing their products against competitors and would preferably like for potential customers to directly close insurances on the site of Independer. By means of this description we classify Independer to be a technological intermediary.

4.1.2 Key activities of Independer

The first question that every case starts with is: what are the key activities of your company according to you? In the earlier stages of Independers' founding their key activities consisted out of linking insurance companies to potential customers through the use of their site. That developed towards becoming an intermediary for certain established insurance companies, which involves acceptance activities and no longer solely delivering the applications of insurance products in return for a fee. This eventually developed even further in to the line of business today, where some traditional insurance companies provided them with 'power of attorney' (volmacht). This power of attorney gives the intermediary (Independer in this case) the authorization to perform the full acceptance, claim handling and collection activities in which in return the intermediary receives commission. Excluding the bearing of the risks involved, which is still done by the insurance company as well as the actual payments. According to Independer the overall Key activity of an insurance company is 'insuring risk' or in other words bearing the risks involved.

Independer perceives their own core business as having one key activities and several supporting:

- On the one side they are a comparator from origin, they use their technological capabilities in order to advise customers with their comparison module allowing them to have a key role in the Sales in Distribution of the insurance industry.
- In addition, they have certificated employees authorized to give advice on insurances. Therefore providing a supporting role in insurance policy monitoring.

- Their function as an insurance broker gives them authorization in order to do the full Acceptance, Claim handling and Collection. However, they stated that claim handling is an outsourced activity.

4.1.3 Key developments in the industry and firm activities

Changes within the industry

The most prominent changes of the last five years within the industry for Independer are changes of legislation especially with regards to the ‘Autoriteit financiële markten’ (AFM). The AFM has introduced several regulations and requirements required for advising on insurance policies and also influence how the client profile and included risk profiles should look like. These changes have reduced the rewards of having several complex financial products like ‘life insurance policies’ in the line of products they involve themselves in therefore exclude them all together.

However, Independer recognizes that technological developments ensure that several linkages within the value chain will no longer be of any added value to the chain. As for instance insurance companies still pay commissions to intermediary parties for delivering policy applications to them. It can be argued that they are no longer needed due to the fact that almost all insurance policies applications come in through online channels.

Changes within firms’ activities

No real changes in their activities were present other than exploring if they could use their comparison module on other non-insurance related products like Energy suppliers and expanding their business models. Also expanding their line of products by providing insurance pack policies as they did research on types of consumers and their behaviour and concluded that there was a feasible market demand for the option of bringing several insurances packed together under one roof instead of dividing them between different suppliers. This however has no affect on their actually activities within the industry.

According to Independer these changes in the industry arise from developments in technological capabilities and also the data that is collected through thousands of comparisons made in the Netherlands providing them with one of the biggest collections of data regarding insurance policies. Stating that some insurance companies find it useful that they have this big data collection as they use it to develop products with them in the future. However, some insurance companies want to collect and have this data in their own possession therefore dismissing intermediaries and start creating (or use more of their own) direct distribution channels. This may be one the biggest reasons to no longer wanting cooperation within the indirect distribution channels. However, Independer isn’t just simply giving away this data as their own activities are very much data driven. The collected data is used to give advice on product development in cooperation with their insurance clients and working together on why certain products do better than others. Mainly because they need the products to be of good quality as they display the products of insurance companies on their site.

4.1.4 Perceived shifts within the value chain of the insurance industry

Directly observable shifts within the value chain are not noticed as of yet. Although several insurance companies like Aegon are dismissing companies with 'power of attorney' from their value chain. With the same arguments in mind as before it could be argued what value these companies still add to the value chain. According to Independer these 'brokers' (companies with power of attorney from Insurance companies) only add value if they develop and contribute to product developments that are not currently on the market. Therefore creating new ways or positions within the market of which the 'risk holder' (insurance companies) will co-operate.

They themselves outsource as an insurance broker, the claim handling activities that come with it. Even though they believe in doing as much as possible yourself they remain in control of your own activities. They state that they never will outsource their customers service department. However claim handling is a very knowledge intensive activity and greatly contributes to getting economies of scale especially when you have lots of business models running at the same time. So the primary reason for outsourcing claim handling is that because of experienced growth the necessary scalability to be profitable couldn't be met, in conjunction there were no impediments regarding the outsourcing of the activity. Outsourcing is considered accordingly to the possibilities of an external supplier who can outperform the activity in comparison to Independers' own capabilities. The increase use of Technology and data enabled claim handling to be outsourced, as it becomes easier transmissible between firms.

Also Independer couldn't identify significant shifts in activities at the traditional insurance companies. However, the upcoming parties do differentiate themselves more. We see that these often smaller companies are more flexible by nature and can shift faster, are more flexible in general and are more capable of developing new products also they are faster at analysing data with us. Where the traditional companies cope with capacity problems, managing boards and politics.

4.1.5 The affects of Solvency II according to Independer

With the introduction of Solvency II companies have increased their focus on good returns (efficiency). Mainly due to the fact that Solvency II has capital requirements in their regulations meaning that lower efficiencies should keep higher capital levels. There is already a noticeable effect in the prices of premiums. The increased focus on returns has caused an increase in responsiveness in the pricing. However, for years for instance the car insurance market the premiums aren't profitable and should therefore actually be higher. The problem is that the one initiating this price raise will undoubtedly lose market share. This also affects them as they adhere to the prices set by the insurance companies if these are structurally low they will also display a lower return. Something they are not responsible for.

The Solvency II regulation raises several questions for the insurance companies as good returns mean that lower levels of capital can be held. This means that the urge to control everything will likely increase for them. With regards to outsourced activities this means that a lot of extra questions will be asked in order to hold control of the activities. In addition it might be more profitable for them to dismiss the intermediaries, as cost will be lower of less of a hassle to do them themselves

4.1.6 Consolidating remarks

Disintegration factors	- The knowledge intensity of claim handling allows for a demand in available specialized firms in the activity. - Rapid experienced growth within Independer has led to no longer meeting efficient economies of scale in claim handling.
Integration factors	The uncertainty of losing control of outsourced activities impedes development towards more outsourcing.
Incentives to change	- The development of Technology and Data enables them to outsource claim handling, as it's now easier transmissible between firms. - Changes in legislation increase the current competitive state. In which Solvency II plays the key role.

4.2 Intrasurance

These case study results are based on a single interview with the CEO and founder of Intrasurance. The interviewee has close to 15 years' experience in this particular function and therefore in the insurance industry.

4.2.1 Company description

Intrasurance as a group has a mission to increase the consumers confident and bring them in control of their own financial securities. Founded in 2002 it was the first insurance company that went fully online with their company 'Verzeker uzelf'. That is still an up and running business division that specialises in providing the best customer service possible and customer intimacy. Subsequently the Intrasurance Group consist of two more business divisions namely Intrasurance and ITS. Intrasurance is the insurance broker that operates with 'Power of Attorney' from several established insurance companies and is concerned with creating operational excellence. The last division is called ITS (Intrasurance Technology Service) and completes what they call 'het wiel van innovatie'. ITS is focused on creating the best possible technology on bases of the input it gets from their own online marketers that are in direct contact with their customers and is also used in finding the best ways of controlling their internal business processes. To keep the wheel of innovation in balance the three business divisions are of equal importance. As Intrasurance works to empower property and casualty insurers through innovative business technology, data-driven decision-making and consumer driven processes.

4.2.2 Perceived key activities by Intrasurance

Intrasurance states that one of their key activities is the digitalization of processes within the insurance industry. Meaning that they try to make complex processes easier and understandable for all people alike. This is done by meeting pre-set conditions for the acceptance of insurance policies and applying standardization on the way the insurance policy is accepted. Their business divisions deliver value through the entire value chain. Their activities start with the acceptance of an insurance policy application up to the point that customers deliver a potential claim regarding their policy. The customer service department is considered as a supporting activity as it is not fully digitalized. Opting for the fact that their website is so well build that not one customer question is needed and the customers themselves can find their own way therefore not needing any analogue assistance of customer service.

4.2.3 Key developments in the industry and firm activities

Changes within the industry

Considering the fact that nowadays almost everything is done online this aspect is not differentiating anymore. Today it is developing towards how capable you are as a firm to provide a personalized offering. According to Intrasurance this has everything to do with the fact that you are trying and able to use all the available data. Gathering as much data as possible regarding customers in order to provide this best-personalized offering of insurance products brings it own problems from the need to balance the customer’s privacy with the personalized offering, which is one of the biggest challenges that needs to be addressed in the near future. This causes the whole aspect of insurances to become more data driven, which currently is one of the biggest developments within the industry.

Relatively, the insurance industry lags behind in terms of technology developments. However, insurance companies are catching up rapidly. Nothing significant happened five years ago compared to the last three years showing a huge effort in making that move. This continuation of catching up with the Internet era is surely one of the biggest changes in recent years. Intrasurance, as a technology company by nature predicted this development. However, the insurance companies have to cope with three major problems that hinder these developments:

1. The Supervisor (or legislations), which imposes many rules that is difficult for them to catch up on technology development as they are focussed on solving these problems internally. Laws like Solvency II, causes firms to hold more capital and be more transparent. Internet forces you to be more transparent, this is however very difficult for insurance companies to do.
2. The enhanced technology developments, most technologies where they worked with five years ago has become more or less obsolete and isn’t suitable for the overall Internet era.
3. Throughout the years these insurance companies have built a large organisation depending on administrative work activities, which can easily be done automated. Finding alternative solutions for this is a challenge for most insurance companies at the moment.

Changes within firms' activities

Intrasurance started with selling online insurance policies and where quickly noticed by established insurance companies that also wanted to sell their products online. Therefore started the selling of private labels (products that are produced by one company, that are brought to the market by another company and their name). Intrasurance build up a portfolio of services that other companies use and in most cases only do the marketing and branding themselves. In later stages providing a technology platform behind certain processes to insurers became one of their business selling points.

All these changes are heavily driven upon the fact that technology itself has made massive steps, which makes these services more and more available for companies and people to use. Even classifying themselves as half insurance company, half technology firm of which the technology part is getting the upper hand. Technology becomes embedded in every process and eventually limits the rolls played by the insurance company itself. More or less like a place where the money is stored if something needs to be paid for. What is even further enhancing this is the fact that the entire world population is getting used to all the technology developments that nowadays are part of our society. The only way of coping with this as company is taking on a more dynamic nature of doing business.

4.2.4 Perceived shifts within the industries value chain

Intrasurance notices a huge consolidations move where there used to be roughly 300 insurance companies there are now only 160 left. Small independent firms are having trouble staying in business, as the new legislation require for you to have higher solvency ratios. You therefore see a consolidation between brokers and insurance companies. The question is however if this is a preferred shift. As these smaller companies are more flexible and more capable of innovating. Some insurance companies see this and have setup divisions isolated from their big organizations in order for them to solely focus on innovation. A highly preferable development could come from these changes in legislations, as the insurance companies have to evaluate their own existence more and questions themselves why to should perform certain activities if they aren't really that good at it considering that money is that easily made anymore. This could potentially cause for the outsourcing of activities to take a huge flight.

The biggest game changer however is perceived to be the advancement of technologies in general. Technologies obligate firms to become more transparent, which enables the consumers to change their perspective on the world around them. Technology developments are the biggest change which also enables for information to be shared easier, with everybody and is almost directly available it changes the connections between people, countries and companies. This drastically changes customer demands what eventually limits this is the legislator that can't keep up.

Also, Intrasurance believe that everybody that can perform better, deliver higher quality against lower costs deserves to be considered as a potential external supplier to which we outsource that particular activity. This is why we hold on to our own vision and compose ourselves in a dynamic way so that everybody who can contributes to our end value, which is 'making our customers confident in dealing with their own financial securities'. The only activity we currently outsource Is that of claim handling to Van Ameyde, because they can deliver better quality meanings increased speed and higher scores against lower cost than we can perform ourselves.

There are a lot of parties to want you to outsource your activities to them, however most companies don't live up to their promises. Therefore, quality perspective in which quality is more important than cost is the most important factor for us to outsource. Quality for us means: speed, real-time and good customer communication.

Most of these changes mostly occur due to coincidences with technology developments and the increased transparency of information that causes a more heterogeneous demand or as Intrasurance calls it a personalization of customer demands. Limiting factors in adapting to this are that it forces you to take decisions and in theory everything is possible. A lot of companies struggle with the fact of letting go to their historically core competencies and move forward. An established firm has trouble dealing with leaving their routines behind and set themselves up for innovation.

4.2.5 The effects of Solvency II according to Intrasurance

Considering that Intrasurance is an insurance broker and therefore the risk and dealing with the solvency capital requirements lies with the insurer they are not really affected by it. However, the insurance companies made their requirements stricter to deliver better operational results, which is only better for Intrasurance as they support companies in increasing their operational deliverables. Solvency II causes companies to think harder and more about where they put their money therefore outsourcing activities could become a more viable option for them to increase efficiency.

4.2.6 Consolidating remarks

Disintegration factors	- Rapid technology changes allows for a more dynamic nature of doing business. - Digitalization of data enables firms to cope with heterogeneity in demand.
Integration factors	Legislation changes with Solvency II in particular have caused a consolidation move between insurance brokers and insurance companies. (Horizontal integration)
Incentives to change	- Applying standardization on the way the insurance policy is accepted. - The increase in digitalization of information enables companies to use all the available data they can gather around their customers in order to cope with increasing heterogeneity in customer - Solvency II causes companies to think harder and more about where they put their money therefore outsourcing activities could become a more viable option for them to increase efficiency.

4.3 Aegon

These case study results are based on a single interview with a board member of Aegon Nederland. The interviewee has 7 years' experience in this particular function and more than 20 years within the insurance industry.

4.3.1 Company description

Aegon Nederland, is an established Financial Service provider and one the biggest players in the insurance industry. Originally emerged from a fusion between AGO and ENNIA in 1983 resulting in a large variety of financial product offerings in insurances, mortgages and banking. Aegon is prominently involved in dealing with pensions more so than their business activities in casualty insurance and claim handling.

4.3.2 Perceived key activities by Aegon

Aegon is predominantly active in the sales and distribution, consisting out of intermediary contacts and online distribution channels. Subsequently, are the activities regarding product-management and development (in terms of variety in product portfolios). Roughly said next to these activities they are involved in back office activities and dealing with insurance claims. However, Aegon acknowledges the selling of their share in commercial insurance claims to Alliance and only own a small department dealing with private claims. To finalize their value chain activities, concluding with the activities as a risk carrier, in other words the pricing and data (underwriting). They are also heavily involved in the administrative side of dealing with insurance policies.

Although state their activities as of evenly strategical importance they mostly built their competences around the field of sales and distribution. The delivery of valuable financial products to the market is considered to be one of their greatest competencies. For some of these product activities, like pensions, they really provide a strong focus on the administrative side of it in which they claimed an important role in the insurance industry in the Netherlands. Orienting on what part of strategical importance the field of insurance claim handling they can play as they identify that the market is heavily fragmented within this activity. The tendency towards 'better' service delivery is noticeable of which claim handling is considered one of the key parts in its implementation.

4.3.3 Key developments in the industry and firm activities

Changes within the industry

In the industry the rise of digitalization is very noticeable. The amount of information from data is growing, which makes the use of paper obsolete and amount of usable data growing. The counterpart of that are of course the large investments that need to be done within the industry in order to collect the data. Which also means that any party involved can't really neglect this development. In the old situation there was an intermediary party, an insurance company and an end customer, which will probably change according to Aegon.

Especially the online distribution can and has already played huge role in this change. This also causes for customers to increase their search behaviour, which the private insurer does with using parties like Independer. For the time being these are one of the most dominant changes within the industry, mainly caused by digitalization and data. The playfield of the industry is rapidly changing, with different roles for advisers and a more demanding customer. These changes caused by digitalization and data are not only present in the insurance industry but in society. Everything is more transparent or has to be more transparent. Customers regarding claim handling often call to get a status update on their claim and want more insight in the process altogether. That is something they need to anticipate on.

Changes within the firms' activities

Changes occur with regards to the expansion of supporting services. The traditional way of putting in a claim is still the same with the addition of preventive measures that are taken into considerations like adding sensors (more) sensors in house in cases of fire for an increase in responsive rate. The acts of preventing are becoming more and more present today. Aegon states that this is mainly a product of decreasing margins with regard to damages on the private side than in the past as a result of increased pressure within the industry.

Altogether, insurance companies should in the future focus more on the parts of the value chain in which they outperform others. In the near future everything should develop towards an increase focus on service, however that is of course dependent on the companies competencies. Technology will continue to develop rapidly as will everything closely related, like data information.

4.3.4 Perceived shifts within the industries value chain

Almost every insurance product within the industry has seen its margins diminish. Therefore changes of business models occur. Companies should shape themselves into a more efficient state, which is strengthened by the introduction of solvency II as it influences decision on where to put your money in.

According to Aegon the role of advisors, will need to exist although it they will probably be less dominantly active as in today's industry. A lot of online business models are arising but will continuously develop and can't be static. Seen from throughout the entire value chain the economies of scale are becoming more important in terms of pricing and administrative activities. In today's industry you need to focus more on your core competencies instead of the previously oriented way of keeping every activity in-house. Van Ameyde is a great example of doing what you are good at and expanding those business activities. The time of controlling the entire value chain from A to Z appears to be over for Insurers. They need to focus on what their best competencies are, which product group contribute best to this and which part of the value chain they want to continue serving.

Therefore Aegon states that for certain activities they need to consider sourcing option, which they haven't done at this point. Examples of this are; claim handling and insurance acceptations (which has a lot to do with pricing and data models), which are considered part of key activities. However, other service providers opt for another movement and instead provide a more supporting offering of service like taking over administrative tasks. These are dilemma's you have to face and consider depending on the situation. Another shift that might be possible to reach economies of scale within the industry is cooperating with other insurers to develop together as for smaller insurers the investment can't be done solely.

The changes that Aegon will make in their value chain activities will be dependent on their own assessment in that particular area and if it's not considered to be part of their core business. They stopped with acting through proxies, is they perceive the value chain to be unnecessary long before the insurance product is finally delivered to the customers. From a client perspective they feel that they can differentiate themselves with claim handling, as this is the activity the customer contacts you and you can show your worth.

4.3.5 The effects of Solvency II according to Aegon

Insurers have to reorient on their business activities and the variety of products they offer. Meaning that the involvement in Pensions for Aegon requires a relatively larger amount of capital held then other products. By Means of solvency II insurers need to have a clear picture of their own activities and will lead to decision making in the abandonment and involvement in other products for the future. Some of these effects where already there, however the introduction of Solvency II will further reinforce these developments.

4.3.6 Consolidating remarks

Disintegration factors	- The playfield of the industry is rapidly changing, which enables an increased need for core competencies to cope - Online channels also cause for an increase in search behaviour and a more demanding customer.
Integration factors	The online distribution channels play the key role in diminishing use of intermediaries.
Incentives to change	- Changes are caused by digitalization and data are also present in society. - Decreasing profit margins as a result of increased pressure within the industry. - Solvency II cause Insurers to have to reorient on their business activities and the variety of products they offer.

4.4 Klaverblad Verzekeringen

These case study results are based on a single interview with a supervisory board member (commissioner) of Klaverblad. The interviewee has 1year experience in this particular function at Klaverblad Verzekeringen and has worked 12 years as the CFO of Alliance Nederland and oversees experiences in Mexico.

4.4.1 Company description

Klaverblad Verzekeringen is an established although smaller player in the insurance industry that primarily focuses on business to consumer. Considered as a slow mover within the markets as they don't strive for profit maximization and therefore also don't strive for efficiency within their processes. This is done in order to not focus on short-term gains but organize the company around long-term goals, eventually following the best suitable example of development present in the market that fit their needs.

4.4.2 Perceived key activities by Klaverblad Verzekeringen

Klaverblad considers their key activities to be Sales, although mention that this is a dying branch of activities in its current form. Followed by product development, however they argue that this doesn't involve much effort anymore as most markets are consolidated with products that exist for years and don't change that much. Subsequently, operations, with most activities consisting out of IT operations, the actual pricing and risks assessment as well as the monitoring of the insurance policies and regard claim handling as a supportive activity.

The adequate serving of intermediaries' parties is considered more of strategic relevancy than the actual insurance product itself that is offered. Meaning that the intermediary has to be content with the actual product service offering. Klaverblad argues to never outsource activities involving the aspect that could influence their reputation directly, like Sales and Marketing. However this also raises question for claim handling activities to be perceived as a key activity. Arguing that the strategic relevancy of claim handling depends on the size of the initial company and the scale of operations for it to be considered a key or a supporting activity. The general direction of doing business will involve higher levels of outsourcing within the industry and use of technology development throughout the entire company. Also that insurance companies due to the technology will become strongly alike as the quality will be determined by IT systems, levelling out prices in the end.

4.4.3 Key developments in industry and firm activities

Changes within the industry

One of the biggest changes from the last years is the structural issue of diminishing profit margins within the industry. This causes an increase in the competitiveness between companies. Therefore leaning out your company is almost the only viable option to stay in business. Therefore an increase in consolidation between companies, their own division in other countries and the use of for instance of one system (worldwide) for their processes to reduce costs are present. Even though that is only possible if you are operating internationally will make it cost-efficient to do so. Klaverblad argues two strategic ways of dealing with these diminishing profits margins: Cost-savings and/or creating a unique selling point. Also the involvement of intermediaries within the distribution channel will also diminish as they pay up to 20% even though most companies have their direct distribution channels running parallel against it for the same prices.

These changes result in the huge investments that need to be done in the IT department to make everything more efficient and bring yourself closer to your customers, which can be seen throughout the entire industry. At this point in time cost savings are currently only done in order to survive. The banking crisis and the introduction of Solvency II also play a huge role in these developments. Solvency II sets such high standard that even controlling your own business activities becomes a time consuming effort. Resulting in a reduction of the playfield that can be used in order to make money, as riskier opportunities are often also more profitable.

Changes within the firms' activities

For the most part insurers will become largely dependent on IT and their activities more dependent on technology. Nowadays technology development is so advanced at this point that every idea to become more efficient is feasible. How insurers will cope with these technology developments and the opportunities they bring will be determinative in surviving and eventually being successful.

According to Klaverblad these changes within the industry and firm activities at the same time originate from the legislator, who will continue to become stricter. From a political perspective they intervened so that insurers and bankers can't take unnecessary risks without validating it. Also the customers are becoming more empowered because of IT technologies everything needs to be more transparent, which makes information easier and more widely available.

4.4.4 Perceived shifts within the value chain

Klaverblad states that the predominant trend within the industry is the splitting of the value chain activities and that is inevitable and it's caused by the necessity of efficiency and cost saving that are also possible due to the developments in technology. Eventually the intermediaries' parties in the sales and distribution will be eliminated as almost 20% goes to them as commission of which only 5% of the cost will actually be needed if the insurers did it themselves nowadays. Easier activities (supporting) that don't really need a lot of control can also be outsourced.

The credit crunch in 2008 caused the consolidation and increased the pressure on insurers making the competition fierce and let margins decrease causing companies to search for different business models. Klaverblad themselves are considering to outsource the administrative tasks originating from pensions funds. There are a lot of external parties willingly to take over some activities therefore the long term trend will consist out of splitting value chain activities.

The factors leading to these shifts are predominantly regarding IT and the profit margins were higher before. Klaverblad is however hesitant to take action as they don't want to lose their unique aspects as they believe IT will turn a lot of companies into efficient robots. From a customer's perspective these shifts increased the overall quality of the financial services.

4.4.5 The affects of Solvency II according to Klaverblad Verzekeringen

The introduction of Solvency II is very legitimate consideration and a more subtle way of measuring risks. For society it is of great importance to prevent insurers from going bankrupt, as the taxpayer will eventually need to pay. By Solvency II the insurer will fix or prevent even the need of fixing their problems. However, everybody is trying to gain a piece of the market at this point before prices go up causing companies that have low solvency levels to get in trouble at this point. Solvency II causes for higher levels of cash to be withheld, probably resulting in big insurers to focus on cost-efficiencies and smaller parties that are specialized and probably everything in between will disappear.

Next to Solvency II there is a huge threat coming from the preventive side of services as it could cause the margins to diminish even further due to advanced electronic monitoring in for example the automotive casualty industry.

4.4.6 Consolidating remarks

Disintegration factors	- IT technologies enable insurers to become more transparent, which makes information easier and more widely available.
Integration factors	- Risk of losing unique aspects due to becoming all a like with the use of IT - Technology development (in the form of online distribution channels) diminishes the current role of intermediaries.
Incentives to change	- Technology development is so advanced at this point that ideas to become more efficient are feasible. - Structural diminishing profit margins increase the competitiveness between companies. - The introduction of Solvency II reduces the playing field and risk taking by setting higher standards of control.

4.5 A.S.R.

These case study results are based on a single interview with the ‘manager expertise centrum en juridische zaken’ at Intrasurance. The interviewee has close to 25 years’ experience in the insurance industry.

4.5.1 Company description

A.S.R. is an established intermediary company and therefore mainly works on the basis of ‘Power of Attorney’ making them an Insurance broker. They have their own direct distribution channel called DITZO, which however is mainly focused on Health insurance. ASR is considered as one of the biggest insurance providers in the Netherlands and the Dutch government is their biggest shareholder.

4.5.2 Perceived key activities by A.S.R.

Key activities consist out of what they call activities to ensure uncertain events. They have a solid basis in almost all aspects of the industries value chain: Sales and distribution (insurance policy acceptation), product development and management, pricing & risks and claim handling. All of which can be seen as independent operating divisions, and could be seen as businesses on their own according to A.S.R. HRM, marketing and ICT are seen as activities that support their key activities. Previously however, marketing was a key activity and has become less of an initiating activity. The last few years they have shifted their focus more towards the claim handling activities instead of distribution channels as a response to diminishing profit returns on certain product groups.

4.5.3 Key developments in industry and firm activities

<u>Changes within the industry</u>

A.S.R. has changed their position within the industry more towards casualty insurances, as they perceive that as an activity with growing potential. Also acknowledging a lot of changes with regards to the elimination of the use of intermediary parties as they are focusing themselves more on setting up online direct distribution channels. These are the biggest changes currently seen within the industry. Next to that the market has become more heterogeneous in demand.

<u>Changes within in firms’ activities</u>

Although, besides the changes mentioned earlier they perceive their business activity to not have changed significantly. Mainly innovation is the reason why particular activities have changed slightly as digitalization will be seen throughout the entire way of doing business. The digital environment will cause changes with regards to laying to focus more on claim handling instead of Sales as it is the point where the customers initially makes actual contact with the insurer. Where as in the earlier the sales was more of a critical point however by the use of online distribution channels the application is only a click away. So there is a shift in focus of activities from Sales towards Claim handling.

The entire value chain of the industry will increase its focus towards digitalization their activities. The use of technology and therefore the online channels can diminish the necessity of intermediary parties as distribution channels. However, according to A.S.R. the intermediaries in sales can still be useful although more with regards to very complex products that definitely need advice.

Technology development and digitalization are the critical factors in the changes of the last years and will continue to do so in the near future. Also the fact that the credit crunch has only recently passed, this could cause an increase in mergers and acquisitions in the near future when its affects are no longer noticeable.

4.5.4 Perceived shifts within the value chain

According to A.S.R. they don't perceive any particular changes in the horizontal or vertical structure of the value chain at this point in time. However particular discussion regarding outsourcing potential are always there. As mentioned before A.S.R. holds almost the entire value chain activities in their own hands, however the claim handling abroad are outsourced to Van Ameyde. They consider claim handling to be a key activity of an insurer or broker, however the international claim handling is outsourced as the creation of know-how with regards to different law systems and language barriers would cost too for their operations at this point.

Acknowledging that the current shifts in outsourcing with regard to several other competitors to be the wrong decision. As they think that external suppliers of certain activities can't deliver the same feeling as their 'own' employees could. The tendency to survive at this point is becoming more present and getting economies of scale is of high importance within the insurance industry. Certain supporting activities also need less attention as they can easily be taken care of it due to automatization. Predominantly to outsource certain activities are of more tactical nature and therefore short-term cost savings for them. The see shifts in key activities that they themselves want to preserve and see competitors outsourcing these.

The lack of history these external suppliers have with doing business as A.S.R. has always perceived to be the right way of doing things is the largest hindering factor in considering outsourcing several of these competencies. Instead they choose to invest in themselves rather than opting for cooperation's between different parties.

4.5.5 The affects of Solvency II according to A.S.R.

Solvency II causes for a lot firms to be sure they are in control of everything instead of relying on other parties to tell them when they are doing something wrong. It makes the insurers responsible for the actual monitoring and controlling of their outsourced activities and meet the standards set by Solvency II. These leads to a more critical look on outsourcing option and potential partners, however perhaps some smaller insurers don't have the option to choose and are forced by the introduction of Solvency II to outsource or to search of cooperation in certain aspects to survive. They argue that internally controlling their own activities will be easier than taking the risks letting external partners take care of activities like claim handling.

4.5.6 Consolidating remarks

Disintegration factors	- The digital environment allows for a dynamic change in actual contact with the insurer. Shifting in focus of activities from Sales towards Claim handling. - Claim handling is considered to be a key activity of an insurer or broker, however the international claim handling is outsourced as the creation of know-how with regards to different law systems and language barriers creates the need for a specialized company
Integration factors	- The risk of losing the embedded historical values of A.S.R. is the largest hindering factor in outsourcing certain activities. - The elimination of the use of intermediary parties as they are focusing themselves more on setting up online direct distribution channels.
Incentives to change	- Innovation is the reason why particular activities have changed slightly as digitalization will be seen throughout the entire way of doing business. - Diminishing profit margins within the industry causing an increase in competitiveness - Solvency II makes the insurers responsible for the actual monitoring and controlling of their outsourced activities and meet the standards set by Solvency II. Leading to a more critical look on outsourcing option and potential partners, however perhaps some smaller insurers don't have the option to choose and are forced by the introduction of Solvency II to outsource or to search of cooperation in certain aspects to survive.

4.6 Verbond van verzekeraars

These case study results are based on a single interview with the spokesman of het verbond van verzekeraars. The interviewee has 3 years' experience in this particular function and within the insurance industry.

4.6.1 Organization description

The Dutch Association of Insurers represents the interests of private insurers operating in the Netherlands. They provide information about the activities of the association and the insurance industry. The Association acts on behalf of the affiliated insurers as an interlocutor for politics, media and other relevant parties on issues that affect insurers. Their members together represent more than 95 percentage of the insurance market in the Netherlands.

4.6.2 Perceived insurance activities by het Verbond van Verzekeraars

Het verbond van verzekeraars perceives the key activity of insurers to be the covering of risks in general. The act of organizing solidarity in order to cover up risks, and that can be of any sort of nature: Fire security, disabilities in the workforce, the building of pensions funds. The primary activity is assessing the risks at hand and provide corresponding pricing (called premiums), which the customers aspects to get if they need put in a claim.

With this particular activity in mind it innovations begin to have a more important role, the use of big data and technology developments in general. In these particular area's you can see a lot of rapid changes causes new markets to emerge. The Cyber insurance market is an example of such an upcoming new market, which would not be feasible a few years ago. Simultaneously, they state that the actual 'product' of insurance companies is changing as nowadays you insure for instance the driver of an automotive vehicle and in the future this might change towards the actual car itself as a result of autonomous cars that require a different type of insurance. Making it very difficult to determine who made the mistake if any accidents occur. Het Verbond van Verzekeraars is therefore conducting an investigation into 'direct insurances' meaning that in cause of an accident the drivers get both their cuts (or put in their claims) at their own insurers.

4.6.3 Key developments in industry and firm activities

Changes within the industry

The insurance industry particularly changed in terms of innovations, there is an increased use of technology. The rapid development of the technology causes every insurer to take leaping steps as everyone is trying to make use of all the available technological possibilities. The main causing factor is also the use of technological developments in the world.

Changes within firms' activities

There are definitely visible changes within firms' activities or at least changes that will occur. Previously insurance was only seen as a matter of withdrawal of the damage and the insurer paying for it. However, major changes are seen on the preventive roles of insurers, the prevention of damages, therefore are becoming more important. This has also caused a change in activities for het verbond van verzekeraars themselves as they provide several programs to cause awareness with regard to risks in, transport safety and other safety deals. Also with regards to cyber insurances because troubles with ICT or other possible dangers with Cyber activities can have a large affect on business activities and need to be protected (more likely prevented).

As Technology becomes more dominant in overall business activities, therefore Internet, ICT and Data can be used to simplify the visibility of potential risks. The increase in data and the overall increase of know-how to use this data we can see where the risks occur. This does come with a negative of raising ethical questions, as a particular group can be held accountable for the increased pricing of the total prices for particular insurance products. However, this is countered by setting up preventive measures against it instead. The value chains of insurers will begin to focus more on preventive actions, and start preventive programs on the life (health) and casualty side of insurances. Subsequently, the digitalization causes for an entirely different dynamic in terms of controlling and monitoring as everything can be automatically controlled. In conclusion the development of technology in the use of the industry is the main facilitating factor in these changes.

4.6.4 Perceived shifts within the value chain

Het Verbond van Verzekeraars does identify a certain shift in the value chain of the industry. However, they are mostly concerned with developments like autonomous cars they questioned what would be left if these cars will hit the market. The automotive part of casualty insurances is the biggest market. Autonomous cars will lead to saver traffic with diminishing risks and casualties in general. On the flipside this causes new insurances to emerge as discussed earlier in terms of cyber insurances that cover the risks of that particular system.

The shits with regards to the vertical structure they find hard to depict, as a lot of activities could run through computerized activities. However, if this will cause for an increase in outsourcing activities is not known at least for now. The outsourcing of claim activities is of course already present, though there are also companies that are beginning to set up their own casualty offices and you still have the use of brokers. Currently in the market there are specialized firms in claim activities however if this will increase is difficult to say.

It is dependent for every company on their own to make decisions regarding these changes in the value chain structure. As everything has their pro’s and con’s if you can build up a good cooperating bases with an external party that can handle correctly with regards to speed and accuracy than that might be an option for them. However, if they themselves have the know-how then that is perhaps the more cost efficient option. This is not something of recent times but there are increasingly more channels through brokers and you see mostly that insurers for example to the casualty side involving another external party in outsourcing their entire claims handling. These companies are not risk-carriers but claim handlers.

According to het Verbond van Verzekeraars there are also activities that are know performed more internally, which is more in the mortgage side of financial services. This shifts in activities has to do with the commission ban introduced 1st January 2013. Many insurers are still working with financial advisors, which they should keep doing, but who have become dependent. Insurers may not pay commission for the selling of their products any longer. You therefore see that insurance companies no longer provide certain products in their product offerings.

The amount of start-ups within the industry is also growing, mainly to provide supporting activities like quickly measuring and dealing with thing more quickly because of their increased use of technology and digitalization. Insurers can buy these start-ups or cooperate with them. That is prediction they see happening.

All changes at present are mainly due to technological developments. In recent years, everything has been put into a higher gear. Insurers are mostly large companies, which don’t change course in one day but gradually. You can clearly see that they have to work harder and that accounts for almost all insurers and the financial sector in general at this time. Technically speaking, more and more is possible. Al though insurers have trouble following and that equally counts for Law and Government regulations that do not follow or not immediately. This is however logical, but especially with regards to laws and regulations their should be an increased look on how to make innovations possible for insurers that is a very critical point.

4.6.5 The affects of Solvency II according to het Verbond van Verzekeraars

By means of Solvency II the marking of potential risks can be done more accurate and stringent than with the use of Solvency I. A new norm is settling, as Solvency II and I can't really be compared. Solvency II will provide a better picture of how an insurer holds up within the industry and therefore will cause for an increase Investor confidence or the confidence of customers in general.

The introduction of Solvency II is a very positive development, however a troubling fact is that it doesn't affect all European Insurers as effective immediately as for instance Spain and Germany have a transition period of up to 16 years to go from Solvency I to II. Solvency II does involve a lot more knowledge, however generally speaking almost all insurers even the ones that received a lot of criticism the past years can meet their future obligations. It could quite certainly have an impact on the vertical structure of activities of insurers, as they need to better assess their own risks and decide what activities are of greater importance to them and therefore put their money in.

4.6.6 Consolidating remarks

Disintegration factors	- Rapid changes causes new markets to emerge like the Cyber insurance markets. - The actual 'product' of insurance companies is changing. Making it difficult to determine who is responsible in accidents. Increasing the demand for specialized firms. The amount of start-ups within the industry is also growing.
Integration factors	
Incentives to change	- Innovations begin to have a more important role, the use of big data and technology developments in general. Internet, ICT and Data can be used to simplify the visibility of potential risks. - Law and Government regulations that do not follow or not immediately. Therefore hinder the pace of certain developments. - However, quite certainly have an impact on the vertical structure of activities of insurers, as they need to better assess their own risks and decide what activities are of greater importance to them and therefore put their money in.

4.7 Combined case study results

We conclude this chapter with an elaborate table to give a brief overview of the results, which will be needed in the next chapter.

	Independer	Intrasurance	Aegon
Main role	Comparing insurers on basis of a specialized technology platform in order to advise customers.	Supporting internal and insurers with the digitalization of processes within the industry.	Established insurers, mainly focused around pensions.
Key activities	Sales and Distribution channel.	Digitalization of processes.	Sales and distribution → product development → underwriting →back office (administrative activities) → claim handling
Supporting activities	Policy acceptations for insurers and insurance policy monitoring (administrative tasks).	As an insurance broker they are involved in sales and distribution channels of insurers.	Administrative activities.
Trends: In/outsourcing of activities	**In:** Product development cooperation's with insurers. **Out:** Claim handling activities (as an insurance broker).	**In:** Nothing decisive. **Out:** Claim handling activities (as an insurance broker).	**In:** Nothing decisive. **Out**: Nothing decisive.
Disintegration factors			
Dynamic environment		Dynamic nature of doing business is necessary to keep up with technology developments.	The playfield of the industry is rapidly changing, which enables an increased need for core competencies to cope.
Availability of specialized firms	The knowledge intensity of claim handling allows for a demand in available specialized firms in the activity.	Some insurance companies see this and have setup divisions isolated from their big organizations in order for them to solely focus on innovation.	
Increase in Heterogeneous demand		Personalized customer offerings are becoming more important.	Online channels also cause for an increase in search behavior and a more demanding customer. Preventing casualties also increases a need for a more personalized approach.
Reduction in coordination		Technology becomes embedded in every process, which also enables for information to be shared easier and directly between people, countries and companies.	
Other factors	Experienced company growth.		Cooperate with competitors to reach economies of scale in claims and do ICT investments together.
Integration factors			
Assets specificity			
High Environmental uncertainty	Fears of losing control over outsourced activities in conjunction with a strong believe in own firms' capabilities.	Letting go of historically core competencies hinders developments.	
Transaction frequency			
Other factors	Technological developments ensure that intermediary linkages within the value chain will no longer be of any added value to the chain.	Legislation changes with Solvency II in particular have caused a consolidation move between insurance brokers and insurance companies. (Horizontal integration).	The online distribution channels play the key role in diminishing use of intermediaries.
Incentives to change			
Industry standards		Setting up pre-set conditions for the acceptance of insurance policies and applying standardization on the way the insurance policy is accepted.	
High rate of technological change	Technology and Data enabled them to outsource claim handling eventually. Also allows for new opportunities in cooperation's with insurers.	The increase in digitalization of information enables companies to use all the available data they can gather around their customers in order to cope with increasing heterogeneity in customer demands.	Changes are caused by digitalization and data are also present in society.
High degree of Competitive intensity	Legislation changes increase the degree of competitive intensity.		Decreasing profit margins as a result of increased pressure within the industry.
Other incentives	Solvency II will increase the need of efficiency and therefore possible have an enabling affect on the vertical structure of the industry.	Solvency II causes companies to think harder and more about where they put their money therefore outsourcing activities could become a more viable option for them to increase efficiency.	Caused by Solvency II Insurers have to reorient on their business activities and the variety of products they offer.

Figure 6. Part one of the combined case results.

	Klaverblad Verzekeringen	A.S.R.	Het verbond van verzekeraars
Main role	Established insurer, characterizes itself by being a slow mover within the industry.	Established insurance broker within the Dutch insurance industry.	Representing the interests of private insurers operating in the Dutch insurance industry.
Key activities	Sales → Product Development → Operations → underwriting	Sales and distribution channels → product development and management → underwriting (most important) → claim handling	**Of insurance companies:** The covering of risks by organizing solidarity (underwriting).
Supporting activities	Claim handling, as they perceive it to be dependent on the relative size and scale of claims in order to regard it as a key activity.	HRM, Marketing and ICT activities are seen as supportive actions.	Everything except the assessment of risks and pricing.
Trends: In/outsourcing of activities	**In:** Involvement of intermediary parties with in the sales and distribution channels will diminish. **Out:** Claim handling, other activities that don't need as much control (administrative & accountancy activities).	**In:** Administrative tasks in HRM as they can now be performed efficiently internal. They expect a movement of mergers and acquisitions once the effects of the crisis are totally diminished. **Out:** They see an increase in the outsourcing of activities at competitors, but want to remain in control themselves. However, they do outsource their international claims.	**In:** Nothing decisive. **Out:** Claim handling activities.
Disintegration factors			
Dynamic environment		The digital environment allows for a dynamic change in actual contact with the insurer. Shifting in focus of activities from Sales towards Claim handling.	Rapid changes causes new markets to emerge like the Cyber insurance markets.
Availability of specialized firms		They consider claim handling to be a key activity of an insurer or broker, however the international claim handling is outsourced as the creation of know-how with regards to different law systems and language barriers creates the need for a specialized company.	The actual 'product' of insurance companies is changing. Making it difficult to determine who is responsible in accidents. Increasing the demand for specialized firms. The amount of start-ups within the industry is also growing.
Increase in Heterogeneous demand		The market has become more heterogeneous in demand.	
Reduction in coordination	IT technologies enable insurers to become more transparent, which makes information easier and more widely available.		
Other factors			
Integration factors			
Assets specificity			
High Environmental uncertainty	Risk of losing unique aspects due to becoming all a like with the use of IT.	The risk of losing the embedded historical values of A.S.R. is the largest hindering factor in outsourcing certain activities.	
Transaction frequency			
Other factors	Technology development (in the form of online distribution channels) diminishes the current role of intermediaries.	The elimination of the use of intermediary parties as they are focusing themselves more on setting up online direct distribution channels.	
Incentives to change			
Industry standards			
High rate of technological change	Technology development is so advanced at this point that ideas to become more efficient are feasible.	Innovation is the reason why particular activities have changed slightly as digitalization will be seen throughout the entire way of doing business.	Innovations begin to have a more important role, the use of big data and technology developments in general. Internet, ICT and Data can be used to simplify the visibility of potential risks.
High degree of Competitive intensity	Structural diminishing profit margins increase the competitiveness between companies.	Diminishing profit margins within the industry causing an increase in competitiveness.	
Other incentives	The introduction of Solvency II reduces the playing field and risk taking by setting higher standards of control.	Solvency II makes the insurers responsible for the actual monitoring and controlling of their outsourced activities and meet the standards set by Solvency II. Leading to a more critical look on outsourcing option and potential partners, however perhaps some smaller insurers don't have the option to choose and are forced by the introduction of Solvency II to outsource or to search of cooperation in certain aspects to survive.	Law and Government regulations that do not follow or not immediately. Therefore hinder the pace of certain developments. However, quite certainly have an impact on the vertical structure of activities of insurers, as they need to better assess their own risks and decide what activities are of greater importance to them and therefore put their money in.

Figure 7. Part two of the combined case results.

5 Cross case analysis

Between case analysis

The tables in chapter 4.7 (figures 6 & 7) combined all the results of the cases into single tables. This chapter will form the final chapter of the results and analyse the results from the previous sector in order to find differences and similarities between the cases and eventually explain why they occurred. As mentioned in the methodology chapter (3), this will be done according to a cross case analysis. During this analysis we will compare the results of the cases to each other. The goal of this is to establish the current value chain structure of the insurance industry as means of providing better context and creating a bases to spread our perceived changes and developments upon. Furthermore to see if the results of the previous chapter complement each other in order to elaborate on the drivers and impediment factors that are observed within the industry and define differences and similarities between the cases.

5.1 Establishing the current value chain structure

This research investigated six different cases and gathered its results through semi structured interviews. In order to strengthen further conclusion, every cases is treated in order to combine key insights about the overall general (or key) activities the industry exists. As part of our data collection paragraph (3.2) we described the setting of our understanding of insurances. We therefore developed our own definition of an insurance 'product': An insurance is a contract, represented by a policy, which offers protection against the risk of financial losses in exchange for monetary compensation called premiums.

In order to make such an insurance policy possible, the insurer, must be able to find such a customer who is willing to pay a premium to cover those risks. In general, to make such an insurance policy possible, either one integrated firm or multiple vertically specialized firms that are interconnected through the use of the market must ensure that the following activities occur. (1) Sales channel or available distribution channels or also known as Retailers or insurance agencies. (2) A policy (insurance product) that enables the insurer to organize solidarity between customers. (3) Underwriting activities, monitoring the policies and risks assessments of the offered and newly developed products. (4) Customer support with its main component of claim handling.

As stated earlier, the Value network can most fittingly describe the value creation logic and the way to describe and analyse the service offering of insurance companies (Stabell and Fjeldstad, 1998; Kijl and Nieuwenhuis, 2011). The related concepts of particular roles and value adding activities (key activities) can be used in order to establish the current value chain structure, which are shown in chapter (4.7) by the two tables.

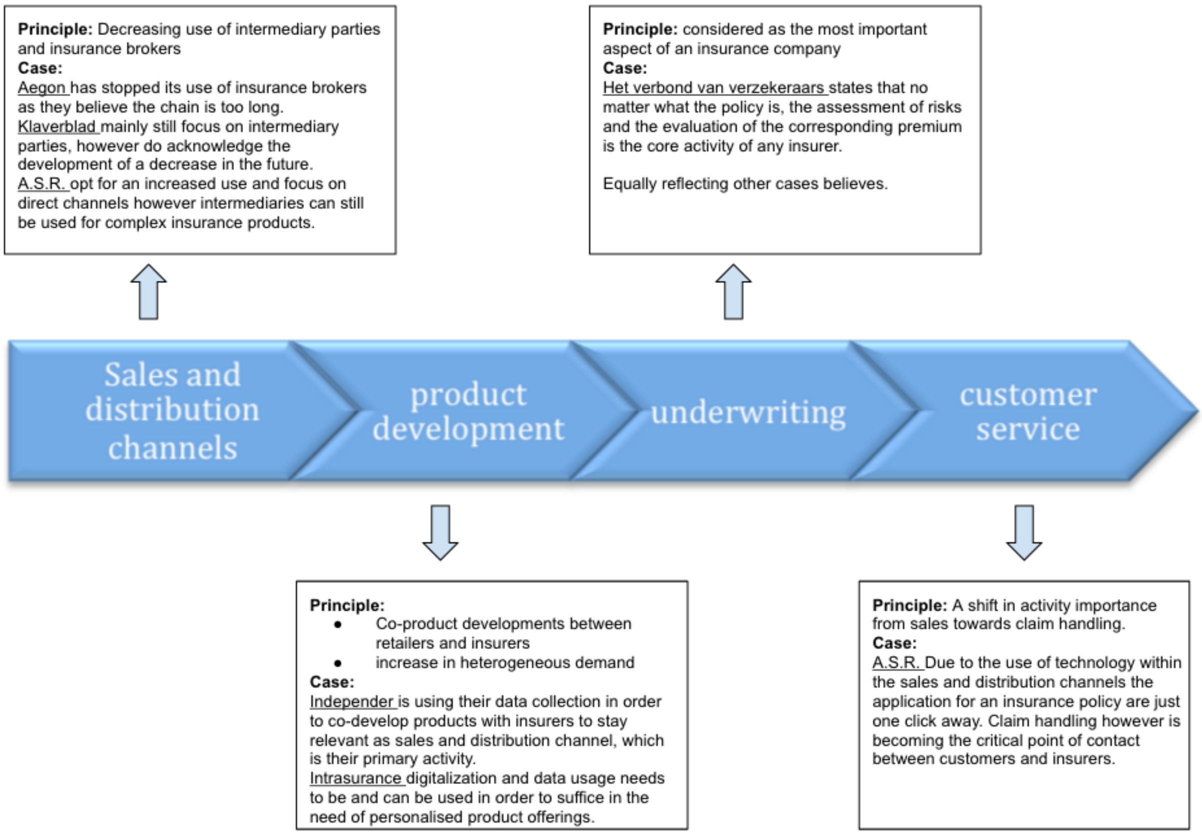

Figure 8. The current value chain structure, with depicted principles of critical changes affecting the vertical structure

As stated in the beginning of this study establishing the current structure of activities within the industry is primarily used as a means of creating understanding and to act as a bases on the possible developments and shifts that are occurring along the value chain. Figure 7., therefore depicts the value chain activities in a very general matter and not in highly detail. The listing of the five principles reflects on the most important changes or developments within that region of activity with corresponding cases of certain statements. The last chain is however called customer service instead of plainly claim handling. Although claim handling is seen as the key activity, it is part of the general term customer service. This doesn’t change anything other than just being a terminology that is more often used and therefore more general applicable in the use of this figure. In chapter 5.2 we however go into higher detail between the observed similarities and differences between the six cases concluding this chapter.

5.2 What similarities and differences can we identify between the cases?

5.2.1 Similarities

As seen in the tables of chapter (4.7) and their corresponding individual case reports there are several similarities and distinctions that can be identified immediately. The first noticeable similarity that can be seen throughout the entire cases descriptions is that technology developments, digitalization within in business processes and the increased use of data information is the thread in every case as a facilitating factors of changes within the industry. Technology developments in general and the overall use in society has caused for an increase in need for personalized demand and has also caused for an increased need of transparency for insurers as the overall involvement of the customer has increased. The data and digitalization of process therefore enables the insurer in order to fulfil these needs as more information is gathered about their customers, which of course needs investments.

Also the already decreasing margins within almost all parts of the casualty insurance industry is causing for desperate measures towards cost-savings and increased need for flexibility and efficiency. However, the investments needed in order to do so are quite significant and are pushing firms further in to engaging in cooperation's or outsourcing activities. Technology development also enables the firms to innovate, therefore providing opportunities but the cases also reflect that it diminishes the importance of others. Intermediaries at least in their current role are becoming less important mainly because technology allows the insurance companies to set up their own direct channels, which are becoming relatively lower to run considering everything is already mainly done online. Therefore excluding the intermediary parties from the distribution channels.

Interestingly, in almost all cases claim-handling activities were outsourced or were the central topic of discussion of dilemma. Mainly because of an increase in importance of service, the focus is shifting towards claim handling were profitable changes can still be made as technology enables specialized firms to do it more efficiently with comparable (or better) quality. Roughly speaking, in almost all cases the hindering factor was the believing, or actual assessment of their own capabilities in not outsourcing activities. Throughout the entire set of cases the tendency of not willing to let go of historically based competencies or believes are present. Also meaning that the primary bases of the actual outsourcing is still based upon a pushing force (a necessity to survive) instead of a pull towards cooperating with external parties and a more dynamic nature of doing business in general.

Although almost all cases described some sort of increase in competition, mainly caused by the credit crunch in 2008, the subsequent consolidation and the following changes in legislation altogether. Furthermore, unanimously the affect of Solvency II definitely causes for insurance companies to reorient on their business activities in some way. With the already diminishing profit margins within the industry in general Solvency II regulations reduces the playfield of insurance companies like never before and obligates them to better assess their risks. Solvency II causes for insurance companies to think harder where to put their money. Disintegration of activities could become a viable option for them to increase efficiency and changing the vertical structure of their value chain activities.

5.2.2 Differences

The future use of intermediaries within the sales and distribution channels gave minor different opinions. In several cases the decision was already made to diminish intermediaries and in some cases the entire use of insurance brokers were eliminated that run parallel distribution channels next to the insurance companies own. In general terms there were three opinions.

- Eliminating the use of intermediaries all together and enable them to run direct channels.
- The current role that intermediaries play today isn't viable and relevant any longer and should shifts their role towards only advising on more complex insurance products.
- Cooperate and develop new insurance policies, products or concepts in order to stay relevant for an insurance company. Therefore becoming a highly specialized company on the front side of the value chain. The case of Independer greatly sketches such a possibility as they heavily rely and collection insurance data from their comparison module. Allowing them to build on competencies in order for them to cooperate and analyse together with the insurance company on how to better the products.

Another interesting difference between the cases is the mentioning of the upcoming take on preventive measures in insurances activities. This allows for an interesting topic of discussion and how this may change the industry. Although for now those were quite unknown at this point.

5.3 What developments are perceived by combining the theoretical and empirical perspectives regarding the vertical scope within the insurance industry?

Analysis

First and foremost how and why did value chain (dis) integration occur? Throughout this entire study the model of Jacobides (2005) is mentioned multiple times and it's use in helping to determine this. The only actual increase in economic activity within market usage is in the outsourcing of the claim handling activity; therefore it lies at the basis of further analysis. Subsequently, Integration has also happened in the form of the diminished use of intermediaries within the Sales and Distribution channels, which will be discussed later on. Theory of TCE by Williamson (1985) has determined several conditions to hinder market relationship from being successful:

- In general there is a growing number of alternatives of external suppliers, therefore bringing insurance companies in the position to look around and find the best fit for their needs.
- The insurance services or policies haven't changed significantly, if at all. This enables the insurance companies to create specific fully legally binding contracts.
- The technology changes and their corresponding investments are at such points in time that they are about to be made. This is an important distinction to make because it means that companies not yet made specific assets investments regarding the development of their own IT infrastructure to gather data. Therefore allowing an increase chance of successful market use.

In the cases the opposites of these hindering conditions were present therefore making integration less likely to occur within the insurance industry according to the TCE standpoints. However, the academic literature mentioned that the inversion of these conditions don't necessarily mean that disintegration will take place instead as these conditions are not binding. With use of the model from Jacobides (2005) we will analyse how and why it in the case of the claim handling did occur. The motivating factors, enabling processes and necessary conditions are described.

5.3.1 Disintegration of Claim handling activities in the insurance industry

Necessary conditions:

Coordination simplification: Technology developments allow the market for service rights, allowing service or at least to be partially separated from the insurance company. For years insurance companies have built a large organization depending on administrative work activities, which can easily be done automated. Therefore allowing the coordination between the adjoining stages to be simplified.

Standardization of information: The second condition that needs to be met is the standardization of information. However, not mentioned throughout the cases Solvency II actually allowed for an increase in standards in information, and overall guidelines of processes. Therefore allowing the information to be certified under Solvency II compliance, which is applicable throughout Europe. Solvency II provides an embedded form of control within the information that can be utilized and drive disintegration instead of perceiving it to be a hindering factor of change. In essence it is a unified form and therefore an industry standard. Next to that, the overall increase of technology use makes all forms of information easier transmissible between customers, companies and countries.

Enabling processes

Intraorganizational partitioning: It is stated that some insurance companies have setup division that are complete isolated from their organization. This is done order to enhance their innovative possibilities. As small companies are often more flexible and coop better with changes. However, that is also where especially technology start-ups thrive within the insurance industry. That leads to an increase in cooperating with these start-ups, outsourcing activities to them or simply buying them but letting them to operate on their own.

Vertical co-specialization: In many cases the results of these rapid changes in technology results in that a single insurance company can't neglect it. As it is the driving force in almost all changes currently displayed. This results in that Insurers no longer solely can rely on their own capabilities, as the pace in which these changes take place is too high, or need to be countered with huge investments that also can't be done alone. Resulting in the use of an external party in order to refill lacking parts within their value chain becomes a viable option in surviving. Especially the way in which these technological vendors can play a role in the increase of an insurance companies economies of scale with regards to incoming claims, as they can shifts more accordingly with demands. As the property of 'service' altogether becomes a more important part of the chain as well as the economies of scale these specialized external parties can turn latent gains from trade into identified gains and show their value within the disintegrated state.

Motivating factors

Gains from specialization: An increase in heterogeneous demand and the dynamic nature of the environment enhanced by heavy price pressure within the industry. Has caused an overall increase of attractiveness in specializations and therefore are considered major drivers to disintegration within the industry. Distinct knowledge bases regarding claim handling have in most cases led to an increase in outsourcing of this activity. This shift is supported by the increased usage of technology in business processes as firms use external suppliers or use a form of cooperating business to gain technologies more quickly rather than to develop them in-house.

Gains from trade: The differences in capabilities regarding technological vendors and the slow moving and huge insurance companies make it attractive for firms to do business together and therefore begin to rely more on the market. Also because these external suppliers in claim handling have better resources in order to scale their processes more efficiently as they often work with multiple insurance clients and already have significant bases in technological capabilities.

5.3.2 Consolidating remarks

In conclusion the initial motivators of disintegration are the increase in heterogeneity of customers' demands and the overall dynamic aspect of the current state of the industry that demands for an increase strategic flexibility and a greater demand of specialized firms. The distinct knowledge bases regarding claim handling have in most cases led to an increase in outsourcing of this activity. Driven by heavy price pressures (increased competitive intensity) and rapid technology changes that allowed them to enable claim handling in a more efficient manner through the use of the market and increase the scalability of claims. With the increase usage of technology the component of innovation becomes more and more dominant in order to cope with the competition resulting in the use of technological external parties in order to refill lacking parts within their value chain in order to survive. Technology developments also stimulate and simplify the way in which data is transmitted between customers, clients and other company's worldwide allowing for a reduction in coordination between activities. Although the introduction of Solvency still has yet to have an impact on the vertical structure of the insurance industry. It could stimulate sourcing options, as it provides an embedded form of control within the information that can be utilized and drive disintegration. However, legislation changes overall can positively or negatively affect incentives to overcome inertia as it acts as a boundary between what is technologically possible and what law and regulations allow.

5.3.3 Integration of distribution channels in the insurance industry

With regards to the diminish use of intermediaries on the frontal part of the value chain the analysis and therefore the integration of sales and distribution channels, is rather simple. By the use of technology developments in the sales and distribution department it has led to increase in development of direct channels. As this allows the insurance company to gather data about their customers, which has increased greatly in importance in order to meet the heterogeneous demands. Technology developments simply enabled them to do so and with the use of direct channels in a more cost-efficient form. Therefore eliminating at least the current role of the intermediaries.

5.3.4 Overall structural changes within the insurance industry

With regards to the development of activities there are five main principles that can be depicted within the current value chain structure. The principles consists out of:

1. The decreased use of intermediary parties and insurance brokers channels.
2. Increase in co-product developments between insurance retailers and insurers.
3. Increase in heterogeneous demand from customers.
4. Underwriting activities, as the main focus point of what to withhold as an insurance company.
5. A shift in importance from sales towards claims handling. However, it doesn't need to be kept in-house it is addressing the shift in critical point of contact between the customer and the insurer.

Solvency II could result in further disintegration of activities within the industry. As it causes for organizations to evaluate their current business activities and remain active in the ones they are most profitable in. Disintegration of activities could become a viable option for them to increase efficiency and changing the vertical structure of their value chain activities. Last, the upcoming take on preventive measures in insurance activities could bring an unexpected change to the field of insurances in general. This is a highly interesting topic for future research, as it certainly needs to be addressed.

6 Conclusion

This will be the final part of the thesis. The conclusion will be used in order to elaborate further on the sub questions that were used in order to help us answer the main research question, followed below. This is done by reflecting upon what is seen within the cases compared to what is expected within theory. The main research question of this study is:

"What factors drive or impede firms in the insurance industry towards value chain (dis) integration?"

In this concluding chapter the identified factors that influence the degree of (dis) integration within the insurance industry are presented. During this research all of the disintegration factors were presented in both theory and practice.

Driving factors

Dynamic environment

The insurance industry is undergoing a lot of changes currently, that allow for more strategic flexibility and therefore a dynamic approach in value chain activities. Industry standards, high rates of technological change and increasing competitive intensity pushes insurers towards increased focus on core competencies. The general value creation logic behind becomes more important again, which is the actual linking of customers by the organization of solidarity. The scale and composition of the network become focus points that are driven and enabled through innovation in effectively utilizing the capacity of the service (Stabell and Fjeldstad, 1998). However, the investments needed in order to do so are quite significant and are pushing firms further in to engaging in cooperation's or outsourcing activities (Aegon, Klaverblad).

Availability of Specialized firms,

The distinct knowledge base of claim handling is one the reason why insurers outsource it. Also as innovation underlies at the bases of competition, it has led to intraorganizational partitioning as big insurance companies have setup separated divisions solely to be more capable of innovating, which led to differences in firm capabilities therefore developing gains of trades to be made within the industry and the increase of available specialized firms within the insurance industry (Intrasurance). Also because there is an overall increased tendency to survive and therefore option that are viable for survival are explored and exploited.

Increase in heterogeneous customer demands

The insurance industry has had increase in heterogeneity of customers demand and also a more demanding customer in general. The industry requires an increase in speed and responsiveness to market developments (Intrasurance, Aegon, A.S.R.). An increased demand for transparency is also present. Information is more widely available and therefore causes increased pressure on preserving reputation. A disintegrated state of activities, results in meeting this increased need for flexibility, speed and responsiveness related to customers' demand as well as beneficial costs reductions (Kedia & Mukherjee, 2009). Especially, when in this case it is combined with heavy price pressure that increases the attractiveness of specialization even further (Schilling and Steensma, 2001).

Reduction between the coordination

There is an overall tendency towards an increased focus on leaning out, efficiency and focus on core competencies, which is enabled through the increased use of technology as it is embedded in every process and allows for information to be shared easier and results in a reduction between the necessary coordination that is needed between activities (Intrasurance, Klaverblad).

Impeding factors

All of the impeding factors towards a disintegrated state and therefore holding on to a greater degree of integration are caused by high environmental uncertainties. Inertia towards adaption of a structure that causes to potentially leaving historical core capabilities behind is the main impeding factors, even though other opportunities are of a higher return and are more efficient. However, as much as it was expected within theory the Risk of Asset specificity wasn't mentioned throughout the cases. Also in conjunction with the theories of TCE by Williamson (1985), the factor environmental uncertainties that impede to change towards a more disintegrated are present. However, the insurance industry does not move, as this theory would expect towards the state of Integration but leads towards disintegration instead. In conclusion what is shown is an (partially) industry that in general terms struggles with adapting adequately to its environment and wants to hold on to its current set of activities but are more or less forced towards a disintegrated state of activities.

Incentives

The overall tendency within all cases as shown in theory as well, is that the high rates of technological change and high degree of competitive intensity cause a reduction in inertia enabling them to adept to their environment. The factor of technology change is often used as one of the most critical factors that lead to an increased use of modular organizational forms within industries (Baldwin & Clark, 1997; Snow, Miles & Coleman, 1992). These rapid innovations that take place pushes the firms to acknowledge that they can't keep up with cutting edge technologies in all activities simultaneously. Therefore, the increase in competitive intensity may push several firms within an industry to overcome their inertia and adapt more quickly, into a vertical structure that is more capable of competing within the increasing levels of heterogeneity and can counter the pressure for flexibility. Vertical disintegration can be used in order to restore competitive advantage as specialized suppliers are better placed to respond to market needs.

Legislation Changes

In the concluding figure 8 of all factors that drive and impede firms in the insurance industry towards value chain (dis) integration the aspect of Legislation Changes and therefore the role of Governments. In the case of Solvency II it shown throughout all cases that it affects the current business activities in a way that it enforces the current present incentives. However, in as much as this is the case for Solvency II, Legislation changes in general also can have negative effects and hinder developments, as they are often perceived as slow and don't act immediately (Het Verbond van Verzekeraars).

Abnormalities

However, this increase in overall technology throughout all processes has resulted in the diminishing role of intermediary's parties within in the Sales and Distribution channels (All cases). In order to cope with the heterogeneous demand the gathering of data has grown in importance. With the use of direct online channels instead of the intermediaries the insurers get a hold of the customers' information directly and subsequently no longer have to give a percentage of provisions to the intermediary, resulting in a more cost efficient way of running the distribution channels. This particular occurrence is marked as an abnormality because it is a step in the opposite direction compared to the rest of the industry. However, the process of (dis) integration, as discussed within theory, is of a dynamic nature, which results in switches in between although in the long run it's developing towards a disintegrated state. As similarly shown in the case of Fixon and Park (2008). The gathering and utilization of customers' information and data is required across the entire span of the value chain, resulting in a reintegration of Sales and distribution channels (Cacciatori & Jacbodides, 2005).

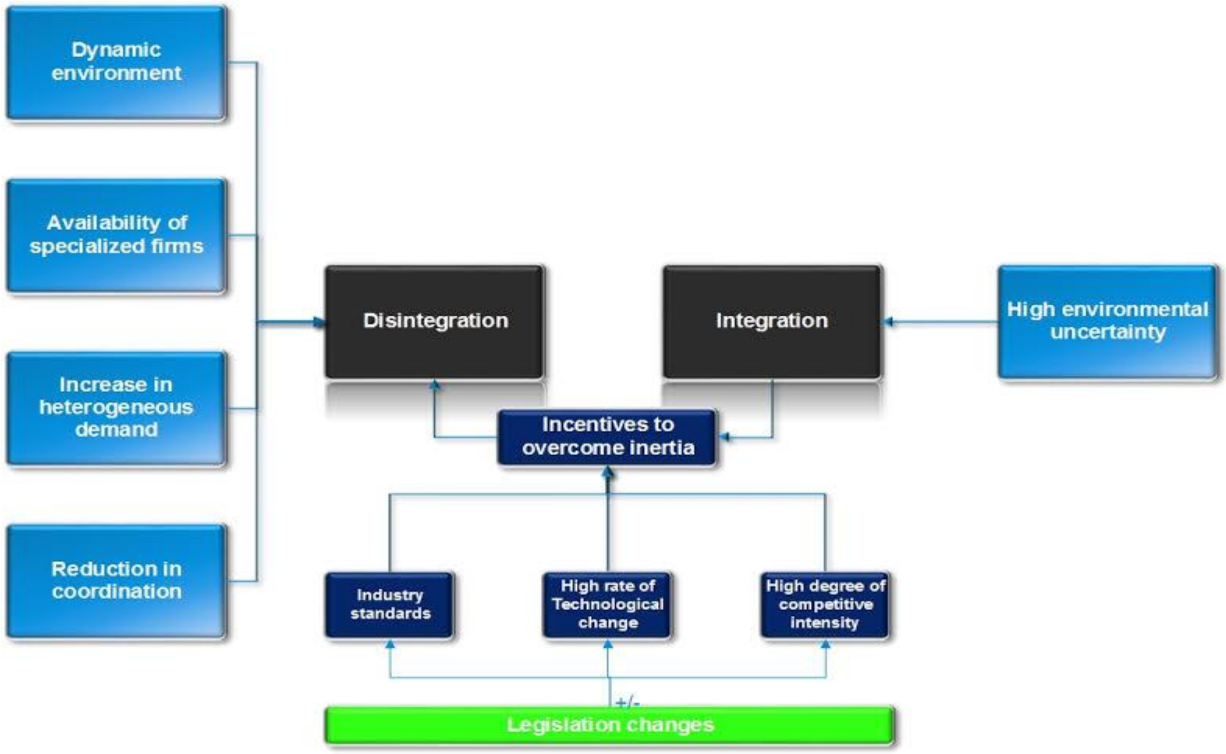

Figure 8: The concluding factors that drive and impede firms in the insurance industry towards value chain (dis) integration.

7 Discussion, limitations and future research

7.1 Discussion

In order to conclude this master thesis and critically examine the results provided within we will elaborate on what we can learn from these particular findings. This will be done, by stating the managerial implications and theoretical implications. Followed by the limitations and future research possibilities.

7.1.1 Managerial implications:

The practical relevance of this paper consists concluding remarks and providing insight in the future development that are made useful for insurance service organisations that are dependent on the insurance industry. The overall topic of this thesis is industry evolution and the strategic renewal of activities, the outcome of the identification of the factors that drive and/or restrain these processes.

- The information within this study can contribute to the strategies and policies in managerial decision making for parties that act within the Dutch insurance industry. As it provides an academic background on which several managerial decision concerning the strategical renewal of activities are made.
- Vertical disintegration of activities can be used in order to restore competitive advantage as specialized suppliers are in a better position to respond to market needs, especially in combination with the heavy price pressure that are and will still continue to be present in the industry in the future.
- The outsourcing of claims departments to external suppliers means that insurers themselves can focus on Underwriting & Marketing. With the benefits of lower claims cost, increased customer satisfaction (Further enhanced by the insurers focus on personalized offerings), and tailored reporting as Solvency II acts as an embedded form of control within the activity. The insurers have greater strategical flexibility and a better chance of survival.
- The driver of competition within the insurance industry is mainly focussed around innovation. Therefore, the introduction of several separated divisions or companies (as mentioned in the Intrasurance case) will greatly benefit the industry to cope with the rapid technology changes. This allows for more incremental process of adapting to the environment and the exploration of the opportunities that are brought upon the insurers.
- A close relation or department focusing on legislation (changes) might be beneficial to help steer technology developments as the Legislators act as a boundary to what the vertically specialized state can produce and what is allowed.

7.1.2 Theoretical Implications:

This research also provides a basis for the contribution of research on the impact business process outsourcing has on the firm's ability to compete and succeed in the globalized economy. The use of outsourcing as a strategic tool is often criticized but with limited argumentation (Hätönen & Erikssen, 2009). This study builds on the facts that outsourcing can indeed be used as a strategic tool to cope environmental uncertainties. It also provides further developments and builds on the theory and framework of Jacobides (2005) that shows the importance of research about Vertical Disintegration instead of the solely and broadly research aspect of Vertical Integration. Also by trying to fill up the gap, what particular role the government plays in vertical (dis) integration of an industry (Jacobides, 2005). Examining the impacts provides new valuable knowledge and insights to can provide a bases towards further research.

7.2 Limitations

All research suffers from limitations, which has its affects on the outcome and therefore on the corresponding value these outcomes provide. The first limitation of this research is that Van Ameyde itself is not taken into considerations. Although mainly because their own interest laid on their clients and potential clients in knowing why or why not more activities are outsourced or in a extended sense.

The second limitation is that a critical aspect within value chain analysis in general is the determination of value allocated to any particular activity. This results in most cases for the difficult task of creating a distinction between strategic and non-strategic activities. In most cases this is worsened because of conflicting priorities within an organization, therefore according to Venkatesan (1992) leading to conflicting points of interests and therefore conflicting sourcing tactics. Leading up to an initial two interviews per case to reduce this limitation, however due to time pressure from the companies this wasn't possible.

The third limitation, which is already included into the methodology, is that the performance of a longitudinal would suffice better in order to link the content, context and processes of change over time. It could also be argued that the number of cases is low and therefore the generalizability of this research is unknown. Pettigrew (1990), states that the individual research project can still contribute to greater research products if a critical incident is handled. Concerning this study the introduction of the Solvency II regulations beginning of this year can be seen as a critical incident within the insurance industry or even financial sector altogether.

Fourth, semi-structured interviews of course have it limitations. Mainly because of the time set for the interviews different and therefore not every question is elaborated upon in depth. Also interviewees could interpret questions differently coming from another researcher.

7.3 Future research

First of all, an interesting topic of which not much information can be found at the moment arose. The aspect of preventive insurer activities is an upcoming form of activities in general. However, the way it will impact the industry in the long run is quite unknown as they are a result of the high rate of technology change in the industry as well as in society. The development of preventive measures and its effects on the insurance industry can be considered as a rising topic of interest for further research within the insurance industry

Also, research regarding the impact of governmental roles and legislations changes could greatly benefit both the insurance industry as well as legislators. Currently the legislators hinder the development of technology in several departments that could potentially benefit customers greatly. However, they are often slow and don’t act responsive towards rising changes.

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9 Appendix:

9.1 Interview protocol

Introductie

Mijn naam is Nick Boertien en ik ben een Master student in Business Administration aan de Universiteit Twente en voer deze Thesis uit in name van Van Ameyde International B.V. Uw deelname aan het onderzoek zal bestaan uit een aantal vragen die u voorgelegd worden met betrekking tot de door uw waargenomen ontwikkelingen in de verzekeringsindustrie en mogelijke veranderingen in activiteiten die binnen uw bedrijf plaatsvinden of hebben plaatsgevonden.

In het onderzoek richt ik mij op de industrie (evolutie) met name het strategisch vernieuwen van activiteiten en het identificeren en analyseren van drijvende en beperkende factoren in dit proces dat waardevolle informatie kan opleveren voor inzichten in de verzekeringsindustrie en daarbij kan bijdragen aan strategische bepalingen en beleidsvoering.

Op dit ogenblik lijkt de waardeketen van de verzekeringsindustrie zich in een status van verticale disintegratie van bedrijfsactiviteiten te bewegen. Echter komen er in de literatuur theorieën naar voren die een dynamisch karakter van dit proces weergeven, daarom richten we ons ook op mogelijke (re) integratie van bedrijfsactiviteiten in de waardeketen. Met name wordt er een trend gezien in het outsourcen van het gehele claimhandling-proces door verzekeringsmaatschappijen naar o.a. gespecialiseerde bedrijven zoals Van Ameyde International B.V.

Duur van het Interview: Naar verwachting zal het invullen van de vragenlijst 60 minuten innemen bestaande uit 22 vragen.

Tot slot wil ik duidelijkheid geven over de mogelijkheid om vragen niet te beantwoorden, in dit geval zal ik u vragen gelieve dit besluit te beargumenteren en al dan niet de vraag te herstructureren.

Uw privacy wordt gegarandeerd tenzij u daar geen problemen aan ondervindt.

Ik hoop u hier mee vooraf voldoende te hebben geïnformeerd.

Bedrijfsspecifiek

Hoelang bent u al werkzaam in de Verzekeringsindustrie?

Waargenomen activiteiten in de verzekeringsindustrie

1. Wat zijn naar uw mening de kernactiviteiten van uw bedrijf?

2. Worden bepaalde bedrijfsactiviteiten van groter strategisch belang gezien als anderen? Zo ja, welke activiteiten zijn dat? En welke activiteiten zijn van ondersteunende aard?

3. Wat voor strategische mogelijkheden ziet u hiervoor in de toekomst voor uw organisatie?

Industrie specifiek

4. Hoe is uw segment in de verzekeringsindustrie ontwikkeld ten opzichte van 5 jaar geleden?

5. Wat zijn de grootste door uw geobserveerde verschillen hierin?

6. Waarom hebben deze ontwikkeling op dat moment plaatsgevonden, denkt u?

Ontwikkeling in bedrijfsactiviteiten (Vroeger, nu & Toekomst).

7. Hebben er zich wijzigingen voorgedaan in het soort activiteiten dat uw organisatie tegenwoordig uitvoert ten opzichte van vroeger? (tijdsbestek 5 jaar).

8. Waarom hebben dergelijke wijzigingen In activiteiten plaatsgevonden op het moment dat ze dat deden?

9. Waar zal de waardeketen zich in de toekomst meer op gaan richten?

10. Welke verdere ontwikkelingen zullen er plaatsvinden in bedrijfsactiviteiten en waarom denk u dat?

11. Wat faciliteert deze beweging?

Verschuivingen in de verzekeringsindustrie

12. Wordt er door u een trend in verschuivingen met betrekking tot de waardeketen geïdentificeerd in de verzekeringsindustrie? (verticaal en horizontaal)

13. Zo ja, welke verschuivingen ziet u in de waardeketen en kunt u vaststellen waarom er zo'n tendens is geweest?

14. Welke activiteiten werden eerder intern gedaan en nu niet meer ? Welke activiteiten zou u dus willen uitbesteden en waarom?

15. Welke activiteiten worden juist nu weer intern gedaan en waarom?

16. Zijn er veel weinig alternatieven om de activiteiten onder te brengen? (veel/weinig aanbieders)

17. Welke factoren hebben mogelijk geleid tot deze break-up of het juist het opnieuw intern halen van deze activiteiten?

18. Waarom zullen deze ontwikkelingen zich niet eerder hebben voorgedaan in de industrie?

19. Wat zijn beperkende factoren die het aanpassen naar deze ontwikkelingen mogelijk beïnvloeden? (bv specificieke investeringen)

20. Is de geleverde dienst door verzekeringsmaatschappijen veranderd of hetzelfde gebleven de laatste Jaren?

Solvency II regeling

21. Wat zal naar uw inzichten het effect zijn van de Solvency II voor uw organisatie en de verzekeringsindustrie?

22. Verwacht u door de vernieuwde regelgeving een verandering in de verticale structuur van uw organisatie?

9.2 Solvency II regulation

Solvency II

Een nieuw raamwerk voor prudentieel toezicht op verzekeraars

1

Vanaf 1 januari 2016 is Solvency II van kracht.

Solvency II is een nieuw raamwerk voor prudentieel toezicht op verzekeraars. Dit is een grote stap voorwaarts voor het verzekeringstoezicht. Solvency II is het resultaat van een langdurig internationaal onderhandelingsproces. In dit nieuwe toezichtkader zijn Europese regels opgenomen voor toegang tot en de uitoefening van het (her)verzekeringsbedrijf, het toezicht op (her)verzekeringsgroepen en de sanering en liquidatie van verzekeraars. Het doel van het nieuwe toezichtkader is de bescherming van polishouders. Belangrijke uitgangspunten van Solvency II zijn de invoering van risicogebaseerde kapitaaleisen en waardering van de balans op marktwaarde. Hoewel het nieuwe kader nog steeds geen allesomvattende garanties biedt, helpt het verzekeraars en toezichthouders om risico's eerder te signaleren en waar nodig actie te ondernemen. Bovendien versterkt Solvency II het risicobeheer van verzekeraars en zorgt het nieuwe kader op Europees niveau voor meer harmonisatie. Dit bevordert een gelijk speelveld voor verzekeraars binnen Europa en is een stap richting een meer Europese markt.

2

Waarom wordt Solvency I vervangen?

Solvency I stamt uit de jaren '70 en was hard aan vernieuwing toe. Het belangrijkste aspect dat ontbrak in Solvency I is dat kapitaaleisen niet werden toegesneden op de daadwerkelijke risico's die verzekeraars lopen. Hierdoor waren er onvoldoende prikkels aanwezig voor goed risicobeheer. Tevens gaf Solvency I onvoldoende inzicht in de actuele financiële positie van verzekeraars en in de risicogevoeligheid van de financiële positie. Dit houdt in dat niet duidelijk was of verzekeraars aan hun toezeggingen zouden kunnen voldoen. Daarnaast bood het kader Europees gezien een onduidelijke en ongelijke mate van polishouderbescherming, was er onvoldoende harmonisatie van toezicht in Europa en was er slechts in beperkte mate ruimte voor toezicht op groepsniveau.

3

Voor welke verzekeraars geldt het nieuwe kader?

Het nieuwe Europees geharmoniseerde toezichtkader Solvency II is van toepassing op middelgrote en grote verzekeraars.[1] Voor de kleinere verzekeraars en voor natura-uitvaartverzekeraars is nationaal een versimpeld toezichtkader ontwikkeld, Solvency II-Basic. Solvency II-Basic kent op hoofdlijnen dezelfde opzet als Solvency II, maar is

1 Onder middelgrote en grote verzekeraars vallen de verzekeraars met bruto premie-inkomsten groter dan EUR 5 miljoen en/of technische voorzieningen groter dan EUR 25 miljoen en/of niet-verwaarloosbare herverzekeringsactiviteiten en/of buitenlandse activiteiten.

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vanuit het oogpunt van proportionaliteit minder uitgebreid vormgegeven. In de praktijk betekent dit dat het Basic kader aanpassingen bevat om het voor kleine verzekeraars makkelijker en eenvoudiger te maken. De allerkleinste verzekeraars worden vrijgesteld van toezicht door DNB. Dit zijn verzekeraars met premie-inkomsten en technische voorzieningen respectievelijk onder de EUR 2 en EUR 10 miljoen en een maximaal verzekerd bedrag van EUR 12.500. Verzekeraars kunnen er vrijwillig voor kiezen onder een zwaarder toezichtkader te vallen, zo kunnen vrijgestelde verzekeraars vrijwillig kiezen voor Solvency II-Basic en kunnen verzekeraars die onder Solvency II-Basic vallen kiezen voor Solvency II.

4

Hoe is Solvency II vormgegeven?

Groepen
Toezichtproces
Samenwerking toezichthouders

Pijler 1

Risicokwantificering

- Marktwaardebalans
- SCR = Solvabiliteits-kapitaalvereiste
- MCR = Minimum-kapitaal

Pijler 2

Risicomanagement

- Governance vereisten
- Own Risk and Solvency Assessment (ORSA)

Pijler 3

Risicotransparantie

- Rapportage aan toezichthouder
- Publieke rapportage
- DNB verantwoording

Solvency II is vormgegeven aan de hand van drie pijlers. Deze pijlers bevatten de eisen voor risicokwantificering, governance en transparantie.

Pijler 1 bevat de kwantitatieve eisen, zoals de waardering van de balans op marktwaarde en de kwantificering van de risico's, zoals marktrisico's en verzekeringstechnische risico's. Verzekeraars moeten hun balans waarderen op marktwaarde. Risico's worden gemeten aan de hand van de standaardformule of met een intern model. Op basis van deze methodes wordt de hoogte van de aan te houden buffer bepaald. De standaardformule is de Europees vastgestelde berekening voor het meten van risico's. Verzekeraars moeten de passendheid van de standaardformule kunnen aantonen. Wanneer deze niet aansluit bij de specifieke risico's van een verzekeraar moet deze een (partieel) intern model of bedrijfsspecifieke parameters gebruiken. Dit model dient door de verzekeraar zelf te worden opgesteld en door DNB te worden goedgekeurd.

Pijler 2 ziet toe op de governance van verzekeraars. Specifiek houdt dit in dat er vier sleutelfuncties moeten zijn: de Riskmanagement functie, de Compliance functie, de Actuariële functie en de Interne Audit functie. Tevens worden vereisten aan de deskundigheid en betrouwbaarheid van bestuurders en houders van deze sleutelfuncties gesteld. Daarnaast moeten verzekeraars zelf periodiek hun beleid, strategie en risicobereidheid beoordelen in de ORSA (Own Risk and Solvency Assessment) en deze beoordeling aan DNB rapporteren.

Pijler 3 waarborgt de transparantie middels een publieke rapportage, het Solvency and Financial Condition Report (SFCR) en een toezichtvertrouwelijke rapportage, het Regular Supervisory Report (RSR). De jaarlijkse publieke rapportage bevat informatie over de werkzaamheden en resultaten van een verzekeraar, de bedrijfsvoering, het risicoprofiel, de uitgangspunten voor de waardering van activa, technische voorzieningen en anderen verplichtingen, en het kapitaalbeheer. Tevens dient de verzekeraar kwantitatieve rapportagestaten te publiceren. De toezichtvertrouwelijke rapportage bestaat naast kwantitatieve rapportagestaten uit een beschrijvend deel. Dit beschrijvende deel is op dezelfde manier gestructureerd als de publieke rapportage, maar bevat additionele, vertrouwelijke toezichtinformatie. De ORSA uit pijler 2 maakt ook onderdeel uit van de toezichtvertrouwelijke rapportage.

Naast deze drie pijlers maken nog drie belangrijke thema's onderdeel uit van Solvency II, namelijk het verbeteren van het groepstoezicht, het toezichtproces en de samenwerking tussen toezichthouders. Het groepstoezicht wordt onder Solvency II flink uitgebreid. Dit betekent in de praktijk dat binnen een groep niet enkel toezicht op individuele verzekeraars wordt gehouden maar ook op de groep als geheel. Een ander overkoepelend element van het Solvency II kader is het Supervisory Review Process (SRP), waar vereisten zijn opgenomen voor het toezichtproces dat door de Europese toezichthouders wordt toegepast. Tot slot de samenwerking tussen toezichthouders; het nieuwe geharmoniseerde kader op Europees niveau moet de internationale samenwerking tussen toezichthouders binnen de European Insurance and Occupational Pensions Authority (EIOPA) vergroten.

De Nederlandsche bank (n.d. P.1-3)