



Transforming the linear insurance business model to a closed-loop insurance model: a case study of Nordic non-life insurers



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ABSTRACT

Businesses are expected to become engines for positive change, and mounting evidence indicates that corporate sustainability is a success factor for businesses around the globe. In this context, the 'business as usual' approach to running businesses with negative environmental consequences is not an option. Industrial ecology and sustainable business models offer solutions on how this transformation can take place. However, transformation of non-manufacturing industries in this respect has not been covered in the literature. The aim of this paper is therefore to use scientific and industry literature and interview data from the Nordic non-life insurance sector to propose closed-loop insurance models. The new models allow insurance leaders to move away from running the insurance business in an old-fashioned linear way, and thus gain a better understanding of how the business contributes to sustainable development. The transformation of insurers' business models is an example of how business models of non-manufacturing industries can be reinvented to support sustainable economic growth by utilizing ideas from industrial ecology. The new business models proposed place insurance business models within the overall research in industrial ecology, thereby filling an evident gap in the literature by showing that the closed-loop concept applies to non-manufacturers.

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1. Introduction

In 1987 the so-called Brundtland Commission – named after Gro Harlem Brundtland, former Prime Minister of Norway – defined sustainable development as “development that meets the needs of the present without compromising the ability of future generations to meet their own needs” (World Commission on Environment and Development, 1987, p. 45). The concept of sustainable development arose in order to address some of the world's pressing social and environmental issues, and is based on the balance between economic prosperity, social equity and environmental integrity. Today, it is an umbrella concept and is the key policy instrument that links the natural environment with society, while also being used to assess long-term survival of the economy, humans and the environment (Sutton, 2007; Wilenius, 2005). To support sustainable development, the World Business Council for Sustainable Development (WBCSD) has developed a world vision that diverts from the 'business as usual' way of delivering economic growth and development (WBCSD, 2010). The Organisation for Economic

Co-operation and Development (OECD) stresses the importance of green growth whereby economic growth goes hand-in-hand with green emphasis in order to prevent the non-sustainable use of resources, biodiversity loss and environmental degradation (OECD, 2011, 2013). To support sustainable development, 'business as usual' is no longer seen as an option; instead, business sustainability is emphasized, where businesses are expected to look holistically at their operations and at how their actions impact stakeholders and the environment (Network for Business Sustainability, 2012). Furthermore, the emphasis is on shared value, meaning that businesses create economic value while addressing the challenges and needs of society, for instance by redefining value chain efficiency (Porter and Kramer, 2011). Business sustainability derives from previously established concepts of sustainable development, corporate social responsibility, stakeholder theory and corporate accountability theory (Marcus and Fremeth, 2009; Wilson, 2003). As global challenges continue to materialize, opportunities are recognized in different business segments for companies willing to address sustainability in a strategic way (WBCSD, 2010).

Mont (2002) suggests that the service role is growing in importance, for instance repairing items instead of throwing them away, and that companies take responsibility by designing

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closed-loop systems that (1) close material cycles, (2) reduce consumption, (3) increase resource productivity, and (4) provide system solutions. This means that it is not enough to focus on the relationship between corporations and customers: the focus has to be on the supply chain as well, from the upstream actions of suppliers to the downstream actions of customers (Halldórsson et al., 2009). Supply-chain management (SCM) with green emphasis has been defined as “integrating environmental thinking into supply-chain management, including product design, material sourcing and selection, manufacturing processes, delivery of the final product to the consumers as well as end-of-life management of the product after its useful life” (Srivastava, 2007; pp. 54–55). Although Mont’s article (2002) offers insights into the role of service providers in moving towards closed-loop systems, the greening of supply chains and sustainable business models, it mainly focuses on minimizing impacts from production.

It is frequently claimed that insurers have a relatively low or moderate ecological and/or carbon footprint (CEA, 2009; Garz et al., 2004; The Geneva Association, 2009) as they emit less greenhouse gases than many other sectors (Mills, 2009; Tapiola, 2008). The ‘moderate’ footprint has, however, not been defined, except in the sense that insurers are seen as using fewer natural resources and generating less waste than other sectors (Garz et al., 2004; Storebrand, 2008; UNEP Finance Initiative, 2007) because they offer intangible services instead of producing tangible products. Median emissions by insurers are estimated to be around 3 tonnes of carbon dioxide (CO₂) equivalent per employee per year, ranging between 1.2 and 8.3 tonnes per employee annually, which corresponds to the global average emissions per person for transportation energy, and exceeds emissions for housing (Mills, 2008, 2009).

The indirect impact of insurers is high, in particular the negative impacts of claims (Meyricke and ClimateWise Sustainable Claims Steering Group, 2010), but solving claims within their complex supply chains is part of an insurer’s core value proposition to clients in terms of their own legal requirements. Customers are buying insurance to reduce their risk exposure, and expect their claims to be resolved by insurers. A ‘clean industry’ mentality among insurers means that many insurers do not have environmental issues high on their list of priorities (WestLB, 2004), which causes them to place a relatively modest emphasis on environmental issues (Johannsdóttir, 2014; Jóhannsdóttir, 2012). On average, more than 50 percent of a corporation’s carbon emissions consists of indirect emissions from the supply chain, i.e. they do not result from the company’s own operations (A.T. Kearney, 2011; Carbon Disclosure Project and PriceWaterhouseCoopers, 2011). Indirect emissions from insurers may be even greater, as claims-handling processes are to a large extent executed by claims suppliers. A report from insurance giant Allianz suggests that indirect emissions are 76 percent in the case of insurers (Allianz Group, 2012).

Insurers have been identified as potential actors in shifting actions related to corporate social responsibility (CSR) from a marginal to a mainstream business issue, because of their interest in addressing these types of issues and also because of their extensive network (Nelson, 2004). Together with the general public, suppliers, large companies and banks, the sector has also been identified as an important stakeholder in driving the implementation of environmental management systems (Hillary, 2004). The ability to change norms in this way applies to environmental and other sustainability issues.

The Nordic countries – Denmark, Finland, Iceland, Norway and Sweden – are seen as being in the forefront in developing new

sustainable business models (Birkin et al., 2009), and the Nordic Innovation Publication and FORA,¹ on behalf of the Nordic Council of Ministers, have recently issued two reports on the topic (Bisgaard et al., 2012; FORA, 2010). However, the actions of financial institutions in terms of environmental issues is an understudied area, as studies of this nature are skewed towards large, heavily polluting firms and producers of tangible products (Birkin et al., 2009; Bisgaard et al., 2012; FORA, 2010). As such, the objective of this paper is to explore the insurance business model, both as a linear business model and as a closed-loop model, using case study data from the Nordic non-life insurance sector and secondary data from the insurance sector. The paper is based on the idea that linear processes of service providers can be improved with respect to the environment by applying the ideology underlying closed-loop systems. The aim is to demonstrate how sustainable business models, i.e. closed-loop models, can be applied to other sectors, with the exception of manufacturing industries, and thereby enhance our understanding of environmental management practices. This is of great importance as “design and management of sustainable business models is an important but yet insufficiently researched area” (Boons and Lüdeke-Freund, 2013, p. 17). The questions being dealt within this article are (1) What does the current scientific and industry literature reveal about the business models of insurers? and (2) How can the business model perspective help transform insurers’ linear business models towards closed-loop business models?

The paper is structured as follows. In Section (2) the business model and sustainable business model concepts are introduced, along with the transformation of business models. Section (3) covers the case selection and research methods. In Section (4) the linear insurance business model is discussed, and a framework of closed-loop insurance models is proposed for the purpose of applying closed-loop thinking to traditional insurance business models. Section (5) consists of the discussion, where the focus is, among other things, on the research agenda concerning sustainable business models and service providers, including insurers.

2. Transformation of business models

Various industries have shown increased interest in sustainable production during the last decade, although this progress is still not resolving global challenges such as climate change, depletion of natural resources and energy supply (Machiba, 2010). It is claimed that making incremental improvements to meet such challenges is not enough: instead, eco-innovation, breakthrough technologies and restructuring of systems and industry must take place in order to attain green growth (Carrillo-Hermosilla et al., 2010; Machiba, 2010). In China, for instance, the development of new business models supporting sustainable development is urgently needed (Birkin et al., 2009).

A business model can be described as the blueprint of a firm’s business logic (Lüdeke-Freund, 2009) and explains the rationale of how companies create, deliver and capture value (Osterwalder and Pigneur, 2009). The key focus is on the firm and its exchange partners, in terms of illustrating the link between the firm and “the larger production and consumption system in which it operates” (Boons et al., 2013, p. 1; Lüdeke-Freund, 2009). A business model for sustainability is, then, “the blueprint of a company’s business logic which internalizes the business case for sustainability” (Lüdeke-Freund, 2009, p. III), where the aim is to have a “lower environmental impact than traditional business models” (FORA, 2010, p. 8).

Business models are in essence narratives explaining how enterprises work (Magretta, 2002), describing the core logic for value creation (Linder and Cantrell, 2000; Teece, 2010). Components of such models include: (1) products and services and the value

¹ A policy think-tank in Denmark.

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