Service-Dominant Logic – A New Service Foundation and Practical Implications for the Insurance Industry*

Thorsten Giersch & Philipp Euwen*****

Abstract

Traditionally the core service offering of an insurance company is seen as the risk reduction of monetary consequences of possible damages. By this, the real service logic of the insurance business is only weakly worked out and the sustainability of long-term success is undermined. In a series of articles Vargo and Lush developed what they call a "mind-set" for a new way of thinking about service. Their approach places service in the center: Not services need a special treatment, but goods are just a special way of delivering services. And therefore what is needed is not special service marketing, but instead a "service dominant logic of marketing", or for short SDL. In this paper we argue first that SDL offers indeed a valuable foundation for thinking anew about insurance as a service. And second, we give first insights on how to implement SDL in a real insurance company.

*Abbreviated version will be forthcoming in *Yearbook: Insurance & Innovation 2018*
** University of Applied Sciences Wedel, Germany, gi@fh-wedel.de
*** SDA SE Open Industry Solutions

1 Problem

The insurance industry is facing a bundle of challenges. Changes are coming from the new digital economy and the new business models that are connected with the internet economy. But changes are also due to the saturation of markets, a growing internationalization of insurance markets with new competitors emerging from foreign countries, but also from different industries. And there are also pressures from a low interest environment. In this situation it seems at hand to consider again, what is really at the core of the industry, namely the products it offers and the customers that are served by them. We will approach this question from a service perspective, and we will try to answer in more detail in what sense insurance is a service and how this helps to cope with some of the challenges mentioned above.

2 Insurance as a Service: The Traditional Approach

Markets are means for exchanging goods and services. In some markets risks are traded. Following Kenneth Arrow the shift of risk is the very essence of an insurance. Arrow speaks in this case of "contingent commodities". So insurance is a device to manage uncertainty by engaging in an "exchange of money now for money payable contingent on the occurrence of certain events".[1] By this a certain loss now is taken in exchange for a possible bigger but uncertain loss in the future. The aspect of a payment that is contingent on uncertain future things to happen puts an insurance in close resemblance to other financial products (like stocks, investment funds etc.) that also offer uncertain prospects about future payments.

The term contingent commodity was coined by Arrow in order to allow a further development of the general equilibrium theory of markets by incorporating uncertainty.

---

[1] Arrow, K. (1965): Aspects in the Theory of Risk Bearing, Helsinki, Yrjö Jahnssonin Säätiö, p. 45.

Therefore commodity markets were introduced that depend on conditional states of the world. For our purpose it is more at hand not to look at the commodity as such, but to look more carefully at the service it offers. In case of an insurance this is the *change* of risk that a person has to bear. The output of the insurance company is not the payment it offers in case an accident happens. The output is the change of risk of the insured person compared to the uninsured person, no matter if the accident will happen or not.

Insurance is not the only way to cope with uncertainty and the risks that are involved. While insurance changes monetary aspects of damages, a person can avoid risks by a change in his behaviour (do not drive on icy roads). Last but not least a person can also reduce damages by engaging in some activities that offer in a more direct sense protection (a better roof against stormy weather).

Although all three aspects (insurance, avoidance, reduction) are closely related to each other, traditionally the change of monetary aspects of risk is considered to be the core service that an insurance company offers. Because this service is mainly devoted to reducing negative monetary consequences of damages by pooling risks and collecting and building up sufficient capital funds the insurance business is seen together with banking as a vital part of the financial service sector. But although this traditional view sees insurance as part of the service sector, one has to admit that the service logic of the insurance business is by this view only weakly developed.

3 Relevance of the SDL-Challenge for Insurance Companies

In a series of articles Vargo and Lush[2] developed what they call a “mind-set” for a new way of thinking about service. Their approach divorces radically from the so far

[2] Cf. Lush, R.L., Vargo, S.L. (Hrsg.) (2006): The Service-Dominant Logic of Marketing. Dialog, Debate, and Directions, New York, M.E. Sharpe and more recently Lush, R.L., Vargo, S.L. (2014): Service-Dominant Logic. Premises, Perspectives, Possibilities, New York, Cambridge University Press.

established scientific approach on the economics and management of services. While the established view is based on the idea that services are something special and therefore have to be treated differently than goods. The new SDL mindset turns this upside down: Not services need a special treatment, but goods are just a special way of delivering services. And therefore what is needed is not special service marketing, but instead a "service dominant logic of marketing", or for short SDL. In the beginning this idea was understood as a reflection of the rising importance of the service sector in developed economies. But Vargo and Lush made clear that their approach is not about the differences between material goods and immaterial services, but really about a change of perspective, no matter whether a good or a service is involved.

What then is this new mindset? Vargo and Lush developed their ideas by contrasting a so-called goods centred way of thinking against a service oriented perspective. In doing so they listed ten foundational premises that constitute the building blocks of their approach. These principles were slightly modified, rearranged and extended over time, and still seem to be in motion.[3] Here is a short version, that considers only the so-called axioms of these by now eleven principles[4]:

[3] Cf. Lush, R.L., Vargo, S.L. (2008): Service-Dominant Logic: Continuing the Evolution, Journal of the Academy of Marketing Science, 36, pp. 1-10.

[4] Lush, R.L., Vargo, S.L. (2016): Service-Dominant Logic: Status and Directions, Forum on Markets and Marketing. Hosted by Warwick University, WMG. Venice, Italy. www.sdlogic.net/uploads/3/4/0/3/.../fmm_2016_pres.short.pdf (28.11.2017)

	Premise	**Explanation/Justification**
A1	*Service is the fundamental basis of exchange.*	The application of operant resources (knowledge and skills), "service," is the basis for all exchange. Service is exchanged for service.
A2	*Value is always cocreated by many actors, including the beneficiary.*	Implies value creation is interactional and combinatorial.
A3	*All social and economic actors are resource integrators.*	Implies the context of value creation is networks of networks (resource integrators).
A4	*Value is always uniquely and phenomenologically determined by the beneficiary.*	Value is idiosyncratic, experiential, contextual, and meaning laden.
A5	*Value co-creation is coordinated through actor generated institutions and institutional arrangements.*	Institutions provide the glue for value cocreation through service-for service exchange.

The core of this mindset is that value is defined by the beneficiary of a service and that service forms the basis of any exchange. But in this exchange the service beneficiary is not just a service receiver, but instead takes part in the service creation so that service value is in this sense the result of co-creation through the interaction of all relevant actors. That co-creation takes place in an institutional setting and needs institutional work is a point that was just recently stressed, but is equally important.[5] So service is on the one hand radically customer orientated, and on the other hand placed in a institutional network of value enhancing interaction of economic agents, resources and technology.

Now what does this mean for the insurance business? What implications can be drawn from SDL? Let`s look first at customer orientation. Customer orientation as such is nothing new and a point that should be incorporated in the DNA of any service organization. Service business is about supporting people and service quality is measured by subjective valuations of customers. But SDL carries these aspects still a

step further. Every aspect of designing, organizing and governing insurance services should give the customer a proper role, aiming at the best value for customers. Trust and support are often mentioned in connection with service. While trust and support are certainly part of the traditional insurance model these have to be expanded to a model of real interaction. Closer interaction with customers allows not only stronger linkages to customers as is the aim of traditional CRM. Interaction as understood by the SDL is the basis of value creation, not only on side of the customer but also on side of the service originator, for example the insurer. Interaction is often seen by firms as a question of having a broad range of direct communication channels, and communication is indeed of relevance, but what is even more needed is to understand which aspects of a service are really important from the perspective of a customer, what jobs are really needed to be done.[6] And here we can take up the basic logic of insurance as risk shifting together with avoidance and reduction as mentioned above. But now with a much stronger focus on customers and their environment. Customer orientation leads not only to customer communication and customer interaction, but should lead to a real customer integration. The customer as beneficiary has to be an integral part of a co-ordinated process of value-creation through resource integration for changing risks, be it by insurance, avoidance or reduction of risks.

4 Implementing an Advanced Insurance Service

To implement and provide improved insurance services insurance companies should adopt the SDL-mindset. This helps insurance companies to put the customer in the

---

[5] Cf. Lush, R.L., Vargo, S.L. (2016): Institutions and Axioms: An Extension and Update of Service-Dominant Logic, Journal of the Academy of Marketing Science, 44, pp. 5-23.

[6] On "jobs to be done" see Bettencourt, L.A., Lush, R.L., Vargo, S.L. (2014): A Service Lens on Value Creation: Marketing's Role in Achieving Strategic Advantage, California Management Review, 57 (1), pp. 44-66.

center of their doing and focus on creating meaningful interactions. In order to design meaningful interactions insurance companies need to start adopting a customer-centric view, focus on services from a customer's perspective and integrate valuable partners. The integration of external partners is essential as the world is increasingly becoming interconnected in every aspect of everyday life due to the digitalization. Furthermore, the goal of integrating partners should be to create valuable service ecosystems that provide added value to all participants, especially to the beneficiary.

Therefore, it is not enough to adopt and integrate established processes of an insurance company's IT-backend into a solution for the customer. For example, implementing such established processes into a smartphone application can result in several difficulties: First, these processes oftentimes involve unnecessary or inconvenient steps, do not focus on usability and are too complex. Second, these processes do not provide any added value for the customer regarding the enrichment of the interaction and service experience.

To demonstrate how valuable services could look like the following use case is outlined. In this use case an nursing insurance service ecosystem is introduced with the SDL premises in mind. If a person is becoming a nursing case various participants are involved: the person needing the nursing care, their relatives, the insurance company, the government, evaluators, nursing services, the physicians, pharmacies and several others. The large number of different actors is difficult to overview in such an unknown and stressful situation for the affected person and their relatives.

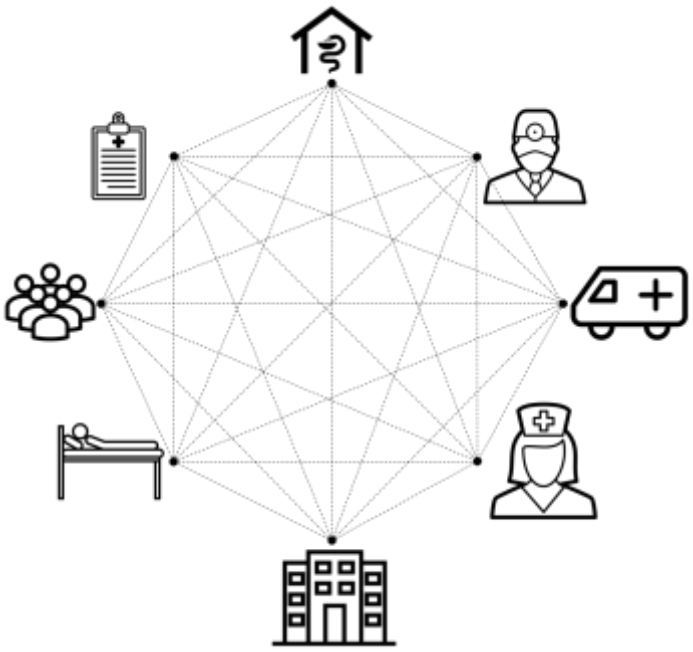

Figure 1: Overview of the related but weakly connected actors

Here lies the chance for an insurance company to become a central endorser and coordinate the actors in a way that delivers value to the affected person, relatives, external partners and the insurance company itself.

The insurance company could provide a smartphone application, which not only supports the affected relatives in dealing with the new situation but also over the long-term by integrating external partners to create a valuable service ecosystem. This would enable the smartphone application to serve numerous purposes and not only provide basic administrational tasks like uploading invoices, looking at contract details or sending messages to the insurance company through secured messaging services.

Through the integration or connection of evaluators the insurance company can provide an option within the smartphone application to schedule an appointment to examine and evaluate the patients care level. In addition to this appointment scheduling feature the insurance company can provide relevant information, e.g. checklists for preparing for the evaluation appointment and necessary documents in a smart and convenient manner,

e.g. in form of short explanation videos or interactive checklists. By this the insurance company would support the affected relatives in the starting phase.

A further step of building a valuable service ecosystem could be the integration of the treating physician. Possible integration options could emphasize on e.g. appointment scheduler, access to documented diagnoses, radiographic images, medical prescriptions, as well as medication regimens. By integrating and providing these information the insurance can become an important supporter for affected relatives by establishing transparency in terms of the medical history of the patient. However, it is important to mention that appropriate approval and permission rules for sharing this information with a chosen person or group of people by the patient needs to be established in advance.

In addition to the digital appointment assistant and physician an integration of the nursing service could be of value for the affected relatives but also for the nursing service. The insurance company could collaborate with the nursing service to create a smartphone application, which allows the caregivers to document their nursing activities in a digital manner. The relevant information could then be extracted and presented to the affected relatives, attending physician and insurance company. The affected relatives for example can access information regarding the condition and when the last nursing visit took place. Furthermore, the attending physician could be provided with necessary information, e.g. blood pressure, to evaluate the patient's medical status. Additionally the insurance companies can start collaborating with pharmacies to offer their customers a one-stop-shop experience. If medical prescriptions are digitally available within the smartphone application the affected relatives could be offered an online ordering service for the prescribed medicine including same day or overnight delivery. By collaborating with pharmacies and becoming an important touch point within the purchasing process of medicine the insurance company can strengthen the relationship with customers. The benefits for the insurance company to think and design

services as well as service ecosystems from a customer-centric view based on the SDL are versatile. On the one hand insurance companies can increase the number of touch points with their customers and provide noticeable added value. On the other hand, insurance companies increase their knowledge of customers, which helps the insurer to create even more valuable services in the future. Furthermore insurance companies can change their public image by presenting themselves as a valuable partner who cares about the customer needs and wants to support the customer in various ways.

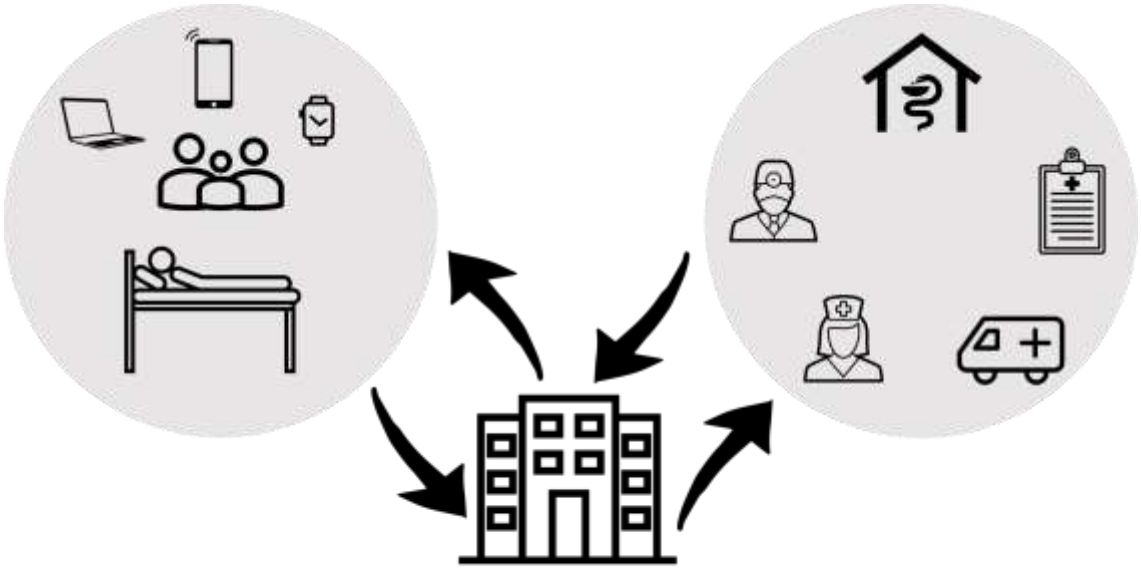

Figure 2: The Insurance Company as a Facilitator for a Nursing Care Service Ecosystem

The outline of the use case demonstrates the possible complex connection between various actors and in order to create such a multifaceted digital service ecosystem many details need to be resolved, especially security issues and access permissions. In regard to security issues the most relevant points are data security and data privacy due to the sensitivity of health data.

In order to build and create interconnected digital service ecosystems with various partners the insurer needs to provide an infrastructure that enables the connection and coordination between all actors. This IT-infrastructure or –architecture needs to be able to orchestrate various partners to create valuable services and coordinate information,

data access and permissions. Furthermore, insurance companies need to design services and solutions that support all partners through collaboration and exchange.

Insurance IT systems are built to be stable, reliable and secure. However, these reliable systems have the down side of being not fast enough for the quick development of the digitization with its agile and modern systems. In order to quickly adapt to the new circumstances McKinsey proposed the 2-Speed-IT approach which proposes to decouple customer-centric frontend systems from the back-ends to benefit from the advantages of both systems.[7] Following this idea the Service Dominant Architecture (SDA) is developed and introduced by Warg et al. in 2015.[8] The SDA enables companies to integrate and orchestrate numerous resources, including data, external actors as well as applications, to create valuable service experiences and service ecosystems.

The SDA is based on three core systems: (1) system of interaction, (2) system of participation, (3) system of operant resources and enhanced by the data lake. The system of interaction provides the basis for offering valuable, interactive, bi-directional, unified customer experiences. On the other hand the system of participation allows the integration of external partner and service ecosystems to enrich service offerings and experience. Furthermore, the system of operant resources builds the foundation of the SDA by integrating internal resources, e.g. knowledge and employees. In addition the data lake enables the collection and analysis of relevant customer information to

---

[7] Bossert, O., Ip, C., Laartz, J. (2014): A two-speed IT architecture for the digital enterprise, McKinsey & Company, pp.1-6.

[8] Warg, M., Weiß, P., Engel, R., (2015): Service Dominant Architecture (SDA): Mastering digital transformation, whitepaper University of Applied Sciences Wedel, pp. 1-23 http://www.fh-wedel.de/.../mitarbeiter/mwa/SDA_Whitepaper_30.11.2015.pdf (29.11.2017).

increase the company's customer knowledge since this knowledge is a key element for creating unique and valuable service experiences in the future.

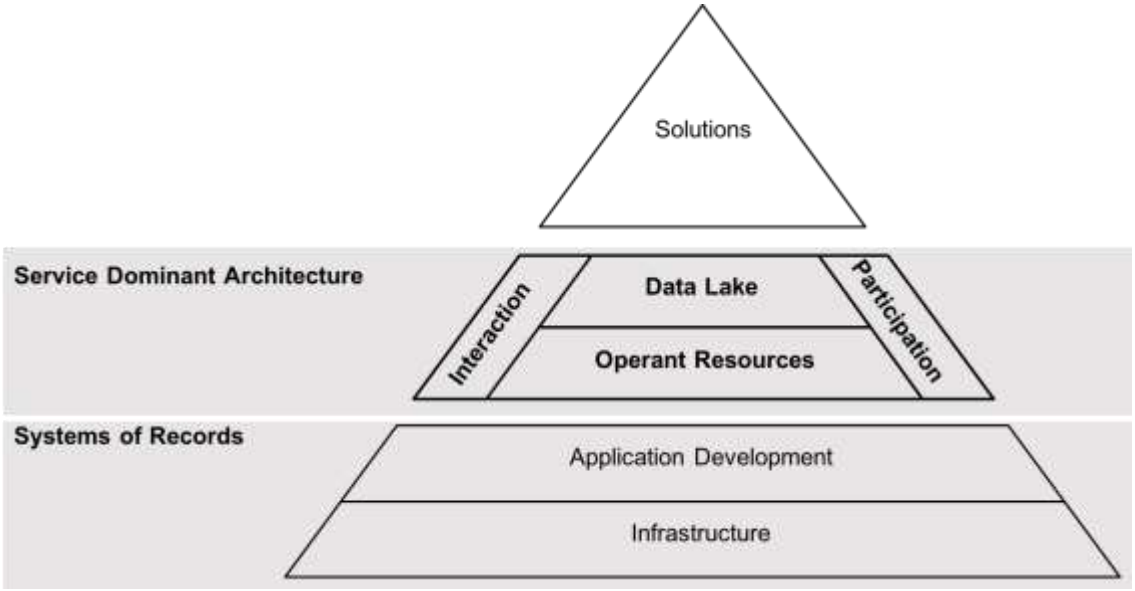

Figure 3: Service Dominant Architecture[9]

The SDA serves as basis to quickly enable companies to adopt and integrate an agile platform that allows the integration of external partners, exchange with customers and to orchestrate services in between to create valuable service experiences.[10] By this the SDA is firmly founded on the SDL core premises. And the SDL mindset allows insurance companies to extend their business beyond the traditional scope and to realize new potentials for improved services.

[9] Warg, M. & Engel, R. (2016): Service-Dominierte Architektur (SDA): Kernkomponente digitaler Transformation, Zeitschrift für Versicherungswesen, 12 (June).

[10] Weiß, P., Zolnowski, A. & Warg, M. (2017): Service Dominant Architecture to Master Digital Transformation – Case of an Insurance Company https://www.sda-se.de/fileadmin/media/wissenschaftliches-center/QUIS15_SDA_Paper.pdf (29.11.2017).

5 Conclusions

SDL directs insurance companies on how to develop a strong service hold in its business environment. Service is here understood in a wide sense of value created by social interaction, coordination and resource integration. By this the perspective of reducing monetary risks is put in a much wider framework, in which the role of the service system integrator and operator becomes a central task for an insurance company. While this system integration might be at first sight understood only as a classical IT-management task, it is also to be seen as a metaphor for designing, building and governing institutional structures which lead to an improved service exchange of partners that belong to what can be understood as an insurance ecosystem.