

## DIGITAL TRANSFORMATION: AN OPPORTUNITY FOR THE INSURANCE INDUSTRY

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**THE INSURANCE INDUSTRY HAS FACED A NUMBER OF CHANGES THAT HAVE DISRUPTED THE TRADITIONAL BUSINESS MODEL. ONE SUCH CHANGE THAT HAS HAD A SEISMIC EFFECT ON HOW INSURANCE COMPANIES OPERATE IN RECENT YEARS AND WELL INTO THE FUTURE IS 'DIGITAL SERVICES'. WE STILL SEE THAT INSURANCE COMPANIES ARE SLOW TO FULLY ADOPT DIGITAL SERVICES COMPARED TO OTHER INDUSTRIES (TRAVEL, TRANSPORT, AND BANKING). YET FOR INSURANCE COMPANIES TO SURVIVE THEY MUST ADAPT QUICKLY AND EMBRACE THE DIGITAL REVOLUTION.**

History has shown that once dominant industries and companies can be extinguished by changing customer demands, as well as the emergence of new disruptive technology - think Kodak v's digital photography - a once dominant company wiped out through a lack of strategic agility and embracing of new technology. Kodak may well be an extreme example, but increasingly, customers are looking for digital ways of interaction within all facets of their life (whether that be digital banking, digital ways of working, digital shopping, and digital dating). The world has become more digital in everyday life than ever before, and this consumer-led approach has disrupted most corporate business models. The insurance sector is no exception. The danger for insurance companies not seizing the digital agenda will mean extinction for some and loss of competition for others.

## THE ERA OF DISRUPTION

Digital services are transforming how customers interact with their insurance company and vice versa. For an insurance industry that is wrestling with silo products, disparate legacy technology platforms and systems, as well as increasing regulatory pressures; digital services represent a real opportunity to remain competitive and grow.

## OPPORTUNITY

With any disrupting business model or technology, there is significant opportunity for those that are able to adapt. We strongly believe that those insurance companies that embrace the 'digital revolution' will reap the benefits and rewards. But this is no easy task. Any change, be it small or large, will represent huge business, operational, and cultural change and strategic re-alignment.

In order to fully embrace the digital revolution, there is a need to develop a digital strategy. Currently, many insurance companies have IT transformation on their agenda to address legacy technology platforms as well as meet growing regulatory challenges. However, relatively few of these IT initiatives are true strategic digital transformation activities; instead they are typically technology refresh projects. Even fewer of these initiatives are aligned to the overall business strategy. The risk for insurance companies is that without a more strategic and integrated approach to real digital transformation the commercial and operational benefits will not be achieved.

## DIGITAL SERVICES

The rewards for insurance companies that embrace a full end-to-end digital strategy are immense. A digital platform can enable:

### 1 - Personalized policy coverage

The need to change the accuracy of risk measurement and provide 'tailored' cover for customers is a key strategic aim. Customers are increasingly frustrated with traditional premium pricing models, and the disparity of premiums between policy

renewals and new customers based on average risk profiling rather than a personalized assessment adds to the frustration. Currently telematics in vehicles has started to address a more personalized risk profile in the motor insurance industry but this has been slow and not yet rolled out across other insurance products. However, with the development of the 'Internet of things' (covering connected vehicles, homes, machines and devices to name a few) this opportunity will only increase in the future as more and more people look to personalized policies that reflect their lifestyle, habits, and digital/technology footprint - development of 'real-time' pricing and risk models. The applicability of a 'one size fits all' insurance approach is very much numbered in an era where levels of customer engagement are increasingly important for customer retention and growth.

### 2 - Omni - channel customer engagement

The Holy Grail for insurance companies is to allow insurance agents to have access to all relevant data at any one time - delivering a seamless customer experience through integrating multiple channels - but this is actually more than implementing a simple integration program. An omni-channel customer engagement will allow insurers to deliver an improved and more efficient service with a 'single view' of the customer across all channels. The emphasis is on mapping the lifecycle of an individual's policy - through to understanding a customer's preferences - through to tailoring products accordingly. However, significant barriers exist regarding historic business and operational models and legacy technology platforms. An Omni-channel approach will require a digital platform to support all channels and integrated into the back office systems.

### 3 - Process improvement

With a diverse range of disparate technology platforms, and legacy systems, insurers are still using manual processes to plug the gaps and integrate products and services manually. Customers can still wait several days or even weeks on completion of

certain insurance products. This is an outdated, time consuming, and margin restrictive approach. Digitizing would streamline processes, eliminate manual input, reduce errors, accelerate turnarounds and reduce operational costs which can ultimately be passed onto the customer.

### 4 - Business model Innovation

New 'tech-savvy' market entrants (that are unfettered by historical business practices and decades of legacy technology) have erupted into the insurance industry. Such entrants have been able to provide 'online only' products utilizing digital services and individualize customer experience, and cloud-technology platforms. In contrast, established insurance companies have struggled to provide the same level of customer experience however, this presents an opportunity to transform the traditional business model and have the advantage of an established brand and customer base. There will always be new entrants in any given market - the key is to be able to compete and compete effectively. On the whole customers still trust large insurance brands - by transforming how you do business into a more adaptable and agile approach - the benefits will be endless.

### 5 - Big data analysis

The volume of data that will be available will increase significantly. The more connected we become, the more data is generated. The challenge for insurance companies is to have an efficient means of making sense of diverse data to better manage risk, provide customers with more relevant service offers and to reduce fraudulent claims. Data will cover a wider set of platforms than ever before from social media, to machine-to-machine communications, to connected homes and vehicles.

### 6 - Emerging markets

The insurance sector is a mature market in the developed world, however large populations in emerging markets are becoming more affluent, having more valuable possessions and starting to seek insurance services for the first time creating growth

opportunities. Many emerging markets are underpinned by mobile services creating a need for a different sales and service channel model. Within existing developed economies, the youth market has historically not been a targeted sector to insurers. However, the proliferation of high value mobile devices is creating a market for the insurance industry to engage with younger customers and engage in a more dynamic way utilising social media and targeted marketing.

**7 - Vendor partnerships**

Insurance companies are increasingly looking at how to transform their infrastructure effectively and efficiently. For some organisations transforming their IT infrastructure in order to become fully digital presents a cost-prohibitive exercise. As a result, insurance companies are looking to invest in FinTech start-ups and establish partnerships with existing IT providers to develop solutions that are tailored to their environment.

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## FOCUS

During 2016 it will be important to focus on the following key activities.

/ Development of an enterprise - wide digital strategy – many insurance companies have developed some form of digital capability, but very few have managed to develop a full end-to-end integrated digital strategy that is aligned to business goals, cross channels (covering pre-sales activity, and post-sales activities) and back-office processing and management of claims. In order to be effective, digital must be integrated at all levels and functions within an organization. However, there are still significant challenges that need to be overcome both internally and externally. Internally - insurance companies need to tackle IT infrastructure, cultural and business model challenges. Externally - insurance companies need to understand their customers (e.g. detailed demogra-

phic analysis, customer profiling and targeting). A digital strategy must be capable of meeting your customer needs and expectations.

/ Existing IT infrastructure – implementing a digital strategy will have a significant effect to the existing 'non-digital' IT infrastructure. For most it will not be easy to 'digitize' their infrastructure. Insurance companies will need to focus on providing and integrating data analytics, digital tools, social media platforms, mobility and channel enablement to existing channels. The digitised infrastructure of the future must be capable of managing data on a constant stream. It will be important to identify what is currently wrong with the existing infrastructure and improve channels. Increasingly, customers will be interfacing with their insurance companies through their devices - it will be vital to understand all the device entry points to the core infrastructure and where the weaknesses are.

## CONCLUSION

Insurance companies will need to ensure that they have developed a robust enterprise-wide digital strategy that takes into account the practicalities of how the existing business model and IT infrastructure can transform effectively to meet business needs and future strategy. Many insurance companies have made the mistake in targeting certain digital services in a 'point solution' approach as and when new technologies or new customer demands/ expectations are placed on the existing infrastructure – overlaying rather than adopting a future proof approach.

Making the decision to move to a digitized infrastructure is no easy task and careful consideration of all the challenges across the end-to-end ecosystem needs to be undertaken.

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