

Life Insurance The Digital Insurer: Change now to get ahead

Industry Insights

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the Insurance Industry



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Digital disruption is adding to insurance industry challenges

The life insurance industry is currently facing an unprecedented set of challenges: game-changing regulatory and macroeconomic factors, and the exceptional pace of consumer and technological change. While the industry is used to living with a constant stream of change, this time it is different – this time the forces of change are more additive and more profound.



The digital revolution; transforming the way insurers do business

The digital era is set to radically transform the insurance industry, not only changing existing business models, but also creating new opportunities for profitable growth.

Digital is not simply a new distribution channel. Digital offers an entirely new way of doing business, affecting all strategic and functional areas.

Clever application of digital technologies will therefore be critical for insurers to survive and prosper.

The digital age brings threats as well as opportunities

Life insurers need to learn the lessons from the recent disruptions in the P&C insurance industry; if they fail to innovate and seize these opportunities, new competitors will steal their core markets.

Players from other industries can enter this market and press home their advantages in customer proximity, retailing experience and market

responsiveness. Digital technologies also reduce the industry's high fixed costs and barriers to entry, increasing the threat from new start ups.

In contrast the insurance industry is facing an uphill battle. It is not an industry known for innovation or its pace of change.

The Digital Insurer: connected, analytic, agile

The Digital Insurer is Accenture's template for high performance in the future.

To be a high performer in the digital age, insurers will need to innovate on three fronts:

-  **The 'Connected' Insurer**
Reinventing the customer experience
-  **The 'Analytic' Insurer**
Richer insights and smarter decisions to enable better outcomes
-  **The 'Agile' Insurer**
Staying one step ahead

Insurers require a different set of capabilities for each of these business models. They will need to understand how they can differentiate themselves and what is required for implementation.

The Digital Insurer will need new forms of leadership and will embrace bold change, but in a new way

The transition from legacy to digital will require new forms of leadership and a whole new philosophy around the implementation of change.

Insurers need to embrace bold change. Instead of major transformation engagements, they should move towards the target vision in a nimble fashion, deploying small pilots and projects quickly. The philosophy will be to place a portfolio of smaller bets; launching, adapting and learning from quick, cheap failure.

Successful insurers will need to embrace the Greenfield 'new co' approach.

Building a 'new co' model will allow life players to: move quickly, avoid the traps of trying to attach a digital front end onto existing business models, and embrace the fundamentally different economics of a new build in the digital era.

The future of insurance is digital

Digital offers a once in a generation opportunity to embrace the future and gain sustainable advantage in the marketplace by shifting to new, more sustainable economic models, while simultaneously "stepping up" to better satisfy real consumer demand.

The future of insurance is digital. We believe the winners will be those organisations that apply digital technologies to be connected, analytic and agile. And if the incumbents cannot get this right then new entrants will.

Digital disruption is adding to insurance industry challenges

The insurance industry is facing fundamental challenges

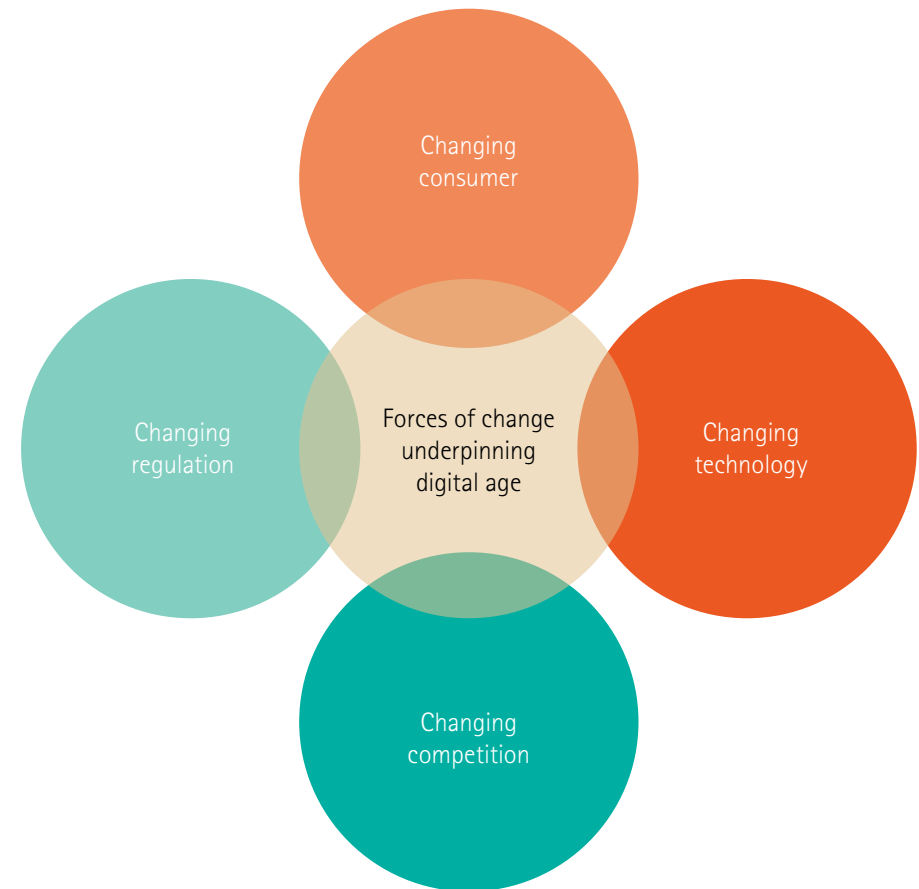
The life insurance industry is currently navigating an unprecedented set of challenges. In addition to navigating ever-more stringent regulations, insurers are grappling with an exceptionally turbulent business environment, the ongoing impact of the financial crisis, and a bleak economic outlook.

In addition to these regulatory and macroeconomic factors, the pace of consumer and technological change is like nothing ever seen before. The dawn of the digital age, along with many powerful forces of change, are creating an entirely new operating landscape.

The life insurance industry has lived with a constant stream of change over the last 30 years. It has survived an ever-changing regulatory framework, new distribution models, changing tax regimes, new competitors, and technology advances.

However, this time it is different. This time the forces of change are more additive, more profound.

Forces of change battering the industry





The digital revolution; transforming the way insurers do business

Digital offers new opportunities for profitable growth and changes to existing business models

The dawn of the digital era is transforming the way that we all live and work and is set to radically transform the insurance industry.

The explosion and convergence of new technologies, combined with the pace of change and the accessibility to both consumers and industry, is underpinning a cycle of continuous innovation and dynamic change.

New digital technologies are combining with changing consumer attitudes, allowing insurance companies to change existing business models, and creating new opportunities for profitable growth.

It is now possible to do things that were previously unimaginable, allowing businesses to completely rethink the way they go to market.

Digital is not simply a new insurance distribution channel

The impact of digital extends across the entire value chain

The insurance industry has to grasp the fact that digital is not simply a new distribution channel.

More fundamentally, the digital era offers an entirely new way of doing business – affecting all strategic and functional areas across the entire insurance value chain, including engagement and interaction with customers, distributors, suppliers and employees. It offers a new lens through which to view the business model.

To give just a few examples of the ways in which digital can transform the insurance value chain, it presents opportunities for:

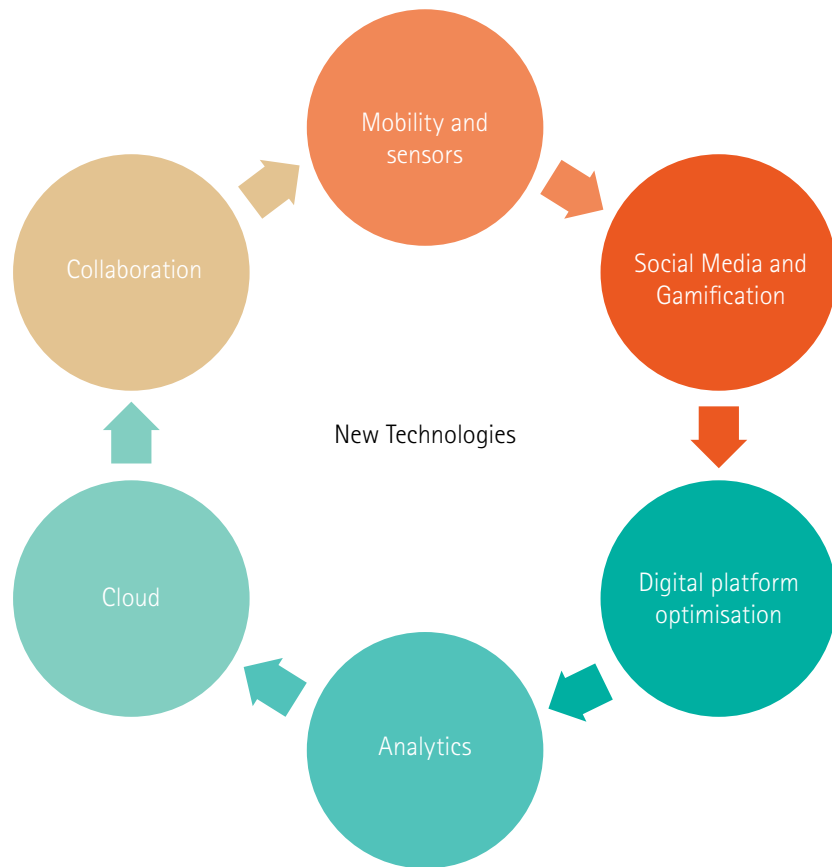
- improved brand management and social media engagement
- optimised and personalised web experiences for consumers
- seamless multi-channel sales and service across phone, online and new channels such as mobile and social media
- a collaborative 'digital workforce' culture, harnessing techniques such as crowd-sourcing
- products and services that can be developed, marketed, distributed and underwritten in entirely new ways, underpinned with powerful analytics and personalisation techniques.

Clever application of new technologies will be critical

Clever application of digital technologies will therefore be critical for insurers to survive and prosper in the new world. In Accenture's view, several key digital technologies stand out as having the potential to reshape the future of insurance:

- Mobility
- Social Media & Gaming
- Digital Platform Optimisation
- Collaboration
- Analytics
- Cloud computing

Several digital technologies stand out as having the potential to reshape the future of insurance



The digital revolution brings threats as well as opportunities

Other industries are likely to further encroach on insurance markets

Digital increases competitive threats, particularly the risks from players outside the industry or new start ups

In addition to some of the opportunities highlighted on page 6, the digital revolution brings significant threats for the insurance industry.

Life insurers need to learn the lessons from the recent disruptions in the general insurance sector; if market incumbents do nothing they can get unseated. Twice in recent history new entrants to the P&C insurance market have proved that incumbency and supposed scale are no barrier to entry. First it was the explosion of the direct channel, and then the more recent emergence of aggregators.

The warning for life insurers is clear. Their existing business models, distribution reach and sheer size may offer no defence and instead may simply act as a constraint. Today's perceived strengths and barriers to entry may in fact be

nothing of the sort. In truth, today's strengths may in fact be weaknesses.

Our message is a simple one. Life Insurers will need to embrace the digital era or get beaten by it. When gaps in the market and consumer demand are not being met by incumbent insurers, external parties or new players can step in, with transformational impacts on the industry.

In particular the digital age:

- heightens the competitive threat from players in other industries who can press home their advantages in customer proximity, retailing experience and market responsiveness.
- further reduces barriers to entry, particularly as the falling cost of technology solutions means new competitors can access solutions cheaply.

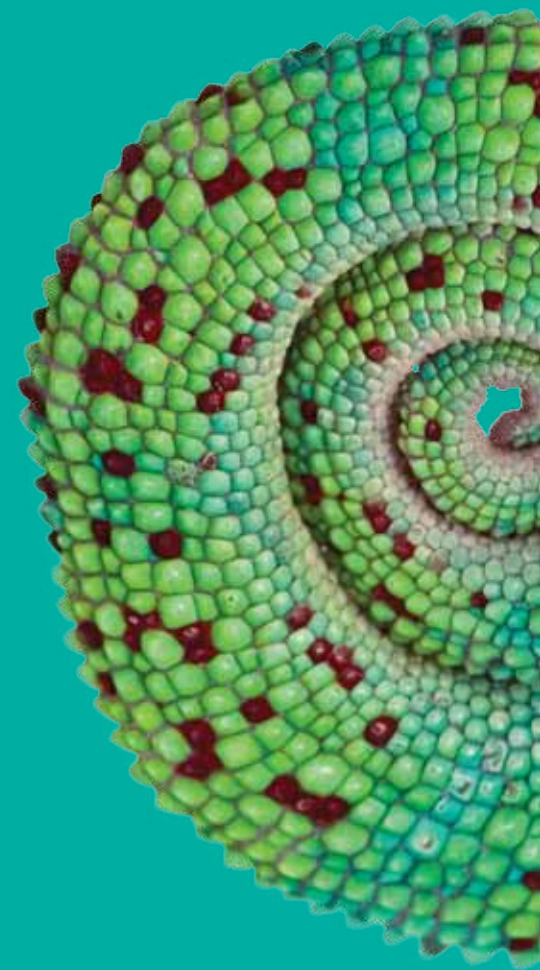
Control of digital distribution could give players from outside the industry powerful advantages

Control of digital distribution will provide more valuable customer insights and data that will create powerful advantages in manufacturing. For example, the sophisticated use of data to analyse and segment markets, to create the right products, and to understand pricing sensitivity.

We therefore see scope for organisations that control access to the consumer, such as aggregators, banks, home service companies and retailers to exploit their digital vantage point.

Currently the focus of such organisations is on leveraging their brand and retail distribution capabilities in conjunction with the manufacturing strength of traditional insurers.

However, if they are able to derive more value from distribution and consumer access, there is a risk that these organisations will at the very least be able to demand more favourable terms of trade. At the most extreme end of the





spectrum, the digital revolution threatens to change the role of traditional insurance companies and undermine their share of value.

The nightmare scenario for industry incumbents is that the organisations moving ahead in digital will shift from distribution to dominating manufacturing and will gain a substantial share of the most profitable parts of the business. There is a real risk that new competitors will take the initiative, and if insurers fail to embrace the digital era, they risk being pushed into the role of commodity risk carriers or worse, risk becoming obsolete altogether.

The insurance industry is facing an uphill battle

In contrast, the insurance industry is facing an uphill battle in innovating and effectively applying digital strategies.

Although the digital era is providing a once in a generation opportunity to embrace the future and gain material competitive advantage, many companies lack the technologies, analytics capabilities, leadership and organisation structures

to capitalise on this. While some insurers have made tactical enhancements, most simply do not have the infrastructure to meet the challenges of the digital age.

The insurance industry is also not known for innovation. While pockets of innovation exist, they are generally not transformative and typically involve tinkering around the edges, such as bolt on ecommerce systems.

On the whole, many core products and processes are still very recognisable from 10–20 years ago and it is generally accepted that the pace of change is much faster in other industries, which are shaping and meeting consumer perceptions and expectations. The danger is that a real gap emerges between consumer demand and insurers' capability to deliver. Winning in digital therefore requires a fundamentally different mindset as well as new capabilities.

The Digital Insurer: connected, analytic, agile

High performance insurers in the digital age will demonstrate three fundamental characteristics

Accenture's research into the components of success in the insurance industry has shown that the key attributes common to high performance insurance businesses worldwide include:

- Effective customer-centric distribution
- Responsiveness to the market
- Operational excellence
- Relentless pursuit of cost reduction
- Focus on risk management

However, in the context of the ever changing digital world, and game-changing shifts in technology and consumer attitudes, these high performance characteristics will need to be overlaid with further capabilities.

'The Digital Insurer' is Accenture's template for high performance in the future. To be a high performer in the digital age, insurers will need to innovate on three fronts:



The 'Connected' Insurer

Reinventing the customer experience



The 'Analytic' Insurer

Richer insights and smarter decisions to enable better outcomes



The 'Agile' Insurer

Staying one step ahead

While by no means mutually exclusive, each of these characteristics represents a distinct application of digital technologies.

In the immediate term these different characteristics or archetype business models may represent distinct strategic choices facing insurance executives. Insurers require a different set of capabilities for each. They will need to understand both how they can differentiate themselves and what is required for implementation.

Connected



- Reinventing the customer experience; the customer is put at the heart of the business
- Physically and emotionally connected with consumers, staying in tune with changing customer sentiments, behaviours and expectations
- Multi-channel sales and service as a standard offering; fully integrating 'old' channels with a new digital core
- Embracing and actively engaging through relevant media, such as social and mobile platforms
- Harnessing deeper collaboration and connection with a much broader group of stakeholders, including customers, employees, partners, distributors and suppliers.

Analytic



- Richer insights and smarter decisions to enable better outcomes
- Tapping into and exploiting value from the explosion of data
- Harnessing the power of next generation predictive tools and techniques
- Wiring analytics into core processes an decision making
- Integration of real-time decision support, driving more value from each customer interaction
- Customising and personalising products and services
- Continuous learning and improvement.

Agile



- Breaking free from the oppressive constraints of legacy
- Operational excellence built around lean core business processes and strong process management disciplines
- Intelligent sourcing approach, making cost effective and flexible use of supplier capabilities
- Early warning and rapid response mechanisms to constantly scan, assess and initiate changes based on market movements and opportunities
- Delivering greater, faster and cheaper change through agile methods
- Fostering a culture of innovation and entrepreneurship.

The Digital Insurer will need to embrace bold change, but in a new way

The transition from legacy to digital will require new capabilities and a whole new philosophy around the implementation of change.

Success in the digital world requires new forms of leadership

Leadership within the Digital Insurer will be different. A digital insurer is one that:

- Is led by visionary executives who are fluent in both business and technology
- Recognises that the game has fundamentally changed forever
- Acknowledges that the changing consumer is central to the new world
- Understands the potential of key technology enablers
- Focuses on business value creation rather than gimmicks
- Understands that mere tweaks to a 1990s business model are insufficient
- Adopts a nimble, flexible approach to change
- Embraces innovation as a standard part of business as usual

Embrace bold change, but in a new way... And learn from cheap, quick failure

Life insurers have never been shy of major transformation engagements. Kicked off as 'strategic big bets' these transformation programmes are usually multi-year, multi-million pound endeavours. From policy administration systems to distributor platforms to customer service solutions, the industry has chased the big idea or solution. And very few have delivered the promised results. Often many have just failed to deliver.

In the digital era no-one can be sure as to what the winning digital plays will be. Accenture's experience suggests that the approach of making one or two big, multi-year bets is not the right way forward. Instead insurers will need to embrace a whole new approach to delivery.

While aiming for bold and fundamental change, the Digital Insurer will move towards a wider portfolio of smaller bets. It will start with relatively small pilots and projects to understand the potential, and then move quickly to back the 'winning' ones. It will

move towards a target vision in a nimble fashion, deploying quickly, adapting and changing course where required, and learning from quick, cheap failure.

One way to start is by selecting areas ripe with opportunity and conducting high-impact pilots to demonstrate the value and build stakeholder buy-in. Pilots should be quickly deployed, demonstrate the value proposition and galvanise support towards the digital transformation journey.

Start again or tackle legacy?

At least twice in recent memory the life industry has embraced the concept of a 'new co' and 'old co' split: first in response to the dot.com boom, and then as a result of the 1% world and stakeholder pensions. The 'new co' concept was founded on the idea of building a set of Greenfield capabilities unencumbered by the constraints of the existing business.

Both times this concept has proved to be unsuccessful. The problems were manifold. Typically the 'new co' tended to replicate the operating complexities and mistakes of the old company. With large investments in the set up of the 'new co' that were difficult to justify

based on the volumes of new business, insurers often unsuccessfully attempted to migrate the 'old company' onto the new co business model.

Accenture believes that the 'new co' and 'old co' split was the right concept, but that it tended to be badly implemented and launched at the wrong time. However, the challenges and dynamic changes of the digital age merit another examination of the 'new co' 'old co' model.

Key lessons on building a new world

Hard earned practical experience suggests that there are 3 key lessons to learn in getting digital right:

1. 'Digital is not a distribution channel, it is a whole new way of operating.' Digital is not simply a front-end on the existing business. Products and processes are so radically different that building afresh is in most cases unavoidable. The simple rebadging of existing capabilities is too easily replicated by competitors.

Conclusion

2. 'If mothership can let you down it will do.' From the moment a company embraces digital and the need to build afresh, the business will work consciously or sub-consciously to kill it. Well intended attempts to reuse existing in-house capabilities or digital investments to solve other related business problems quickly derail progress. From the moment insurers announce a digital project, the clock is ticking. With every month the chances of success dramatically reduce.
3. 'Economics of a new build are fundamentally different today.' Digital technologies do not just present the opportunities, they also present the means. Cloud computing, software as a service and huge advances in packaged software have created an opportunity for leading insurers to get new digital ideas to market quicker and at a price point unheard of even a decade ago.

Accenture therefore believes that successful insurers will need to embrace the Greenfield 'new co' approach.



We are still waiting for true customer centric innovation in insurance. The fundamental need of consumers to protect their assets and livelihoods is as strong as ever, yet insurance as a whole remains a grudge purchase in the minds of most customers.

Digital offers a once in a generation opportunity to embrace the future and gain sustainable advantage in the marketplace by shifting to new, more sustainable economic models, while simultaneously "stepping up" to better satisfy real consumer demand.

History has shown that where market gaps and failures persist, they are soon filled by new entrants that transform the landscape. Can insurers really afford not to play this game?

The future of insurance is digital. We believe the winners will be those organisations that apply digital technologies to be connected, analytic and agile. And if the incumbents cannot get this right then new entrants will.

How can Accenture help?

Accenture is well positioned to help insurers respond to the opportunities and challenges likely to arise in the digital age. As the leading professional services provider in the insurance market, Accenture is able to bring extensive experience of addressing strategic and operational change.

We have a suite of capabilities that can help insurers on their journey to digital high performance, including:

Connected

- Accenture Interactive platform
- Digital marketing optimisation
- Customer experience / Social CRM
- Multi-channel digital contact
- Next generation contact centre
- Proposition development
- Workplace collaboration

Analytic

- Predictive analytics
- Systems integration
- Master data management
- Data warehousing

Agile

- Application consolidation and rationalisation
- Next-generation insurance platforms:
Accenture Life Insurance Platform
- Business process management
- Organisational Change / Journey Management
- Sustainable innovation service
- Cloud services

Industry Insights

This point of view is Accenture's template for how The Digital Insurer can achieve high performance in the future. It explores how service providers in the digital age will still need to master the fundamentals, but will also need to innovate on three fronts. These three archetype business models encapsulate how insurers can differentiate themselves using digital:

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