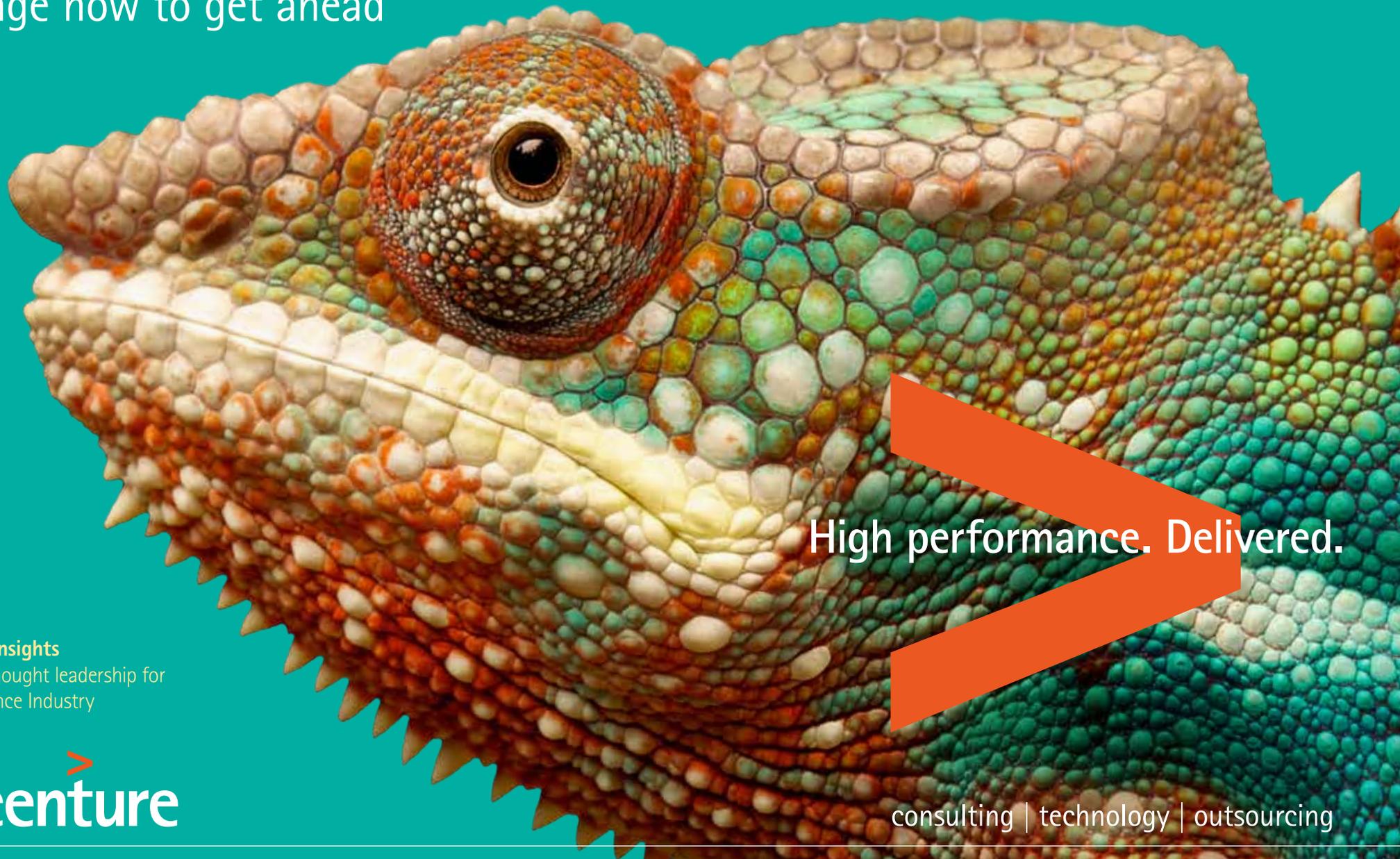


P&C Insurance
The Digital Insurer
Change now to get ahead



High performance. Delivered.

Industry Insights
Focused thought leadership for
the Insurance Industry

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Seizing the opportunities of the digital revolution in personal lines

The P&C insurance industry is currently facing an unprecedented set of challenges. In addition to challenging macroeconomic conditions, the pace of consumer and technological change is like nothing ever seen before.





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

If market incumbents do not innovate and seize the opportunities, the field will be left clear for new competitors to steal their core markets.

The digital revolution heightens the competitive threat from players in other industries, that can 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 capabilities 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.

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 property & casualty insurance industry is facing fundamental challenges

The general insurance industry is currently facing an unprecedented set of challenges. Insurers are grappling with an exceptionally turbulent business environment, the ongoing impact of the financial and eurozone crises, and a bleak economic outlook.

In addition to these 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.

These challenges are most pronounced in Personal Lines, but also resonate in some sectors of the Commercial Lines market.

While some of these challenges are not new, they are now more pronounced than ever before. The existence of so many powerful forces of change at a time when the industry is facing significant economic challenges

creates far more difficult and dynamic market conditions for insurers. The personal lines sector in particular is struggling with unsustainable acquisition, retention and loss costs.

The forces of change underpinning the digital revolution and having the most profound impact on the industry include:

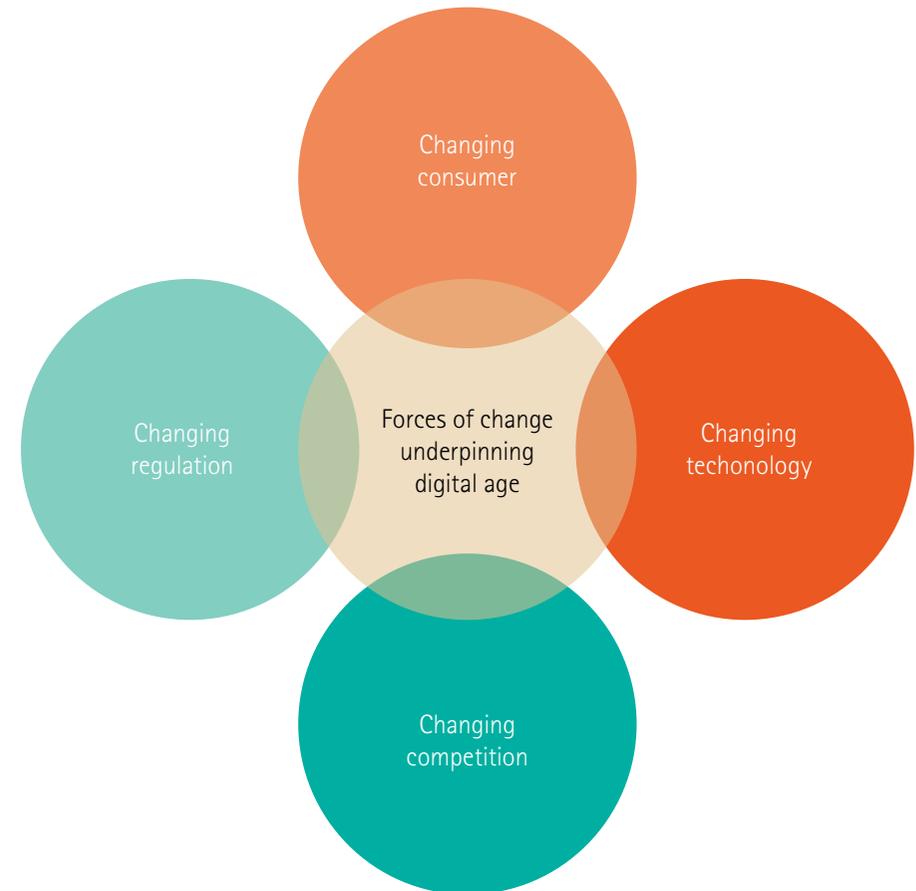
The changing consumer – more demanding, digitally savvy and less loyal customers demanding a better deal

The technology explosion – much more powerful computing in both personal and business applications, with lower cost digital technologies transforming all areas of life

Tougher regulation – more intrusive, directive and pro-consumer interventions

Increased competition – resulting from more transparent trading and lower barriers to entry

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. Although distribution and sales have traditionally been the primary focus of digital strategies, at the very least it is now leading to pressure to upgrade service and claims. The existence of a comprehensive multi-channel servicing capability will become a hygiene factor within the next 2–3 years.

However, 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:

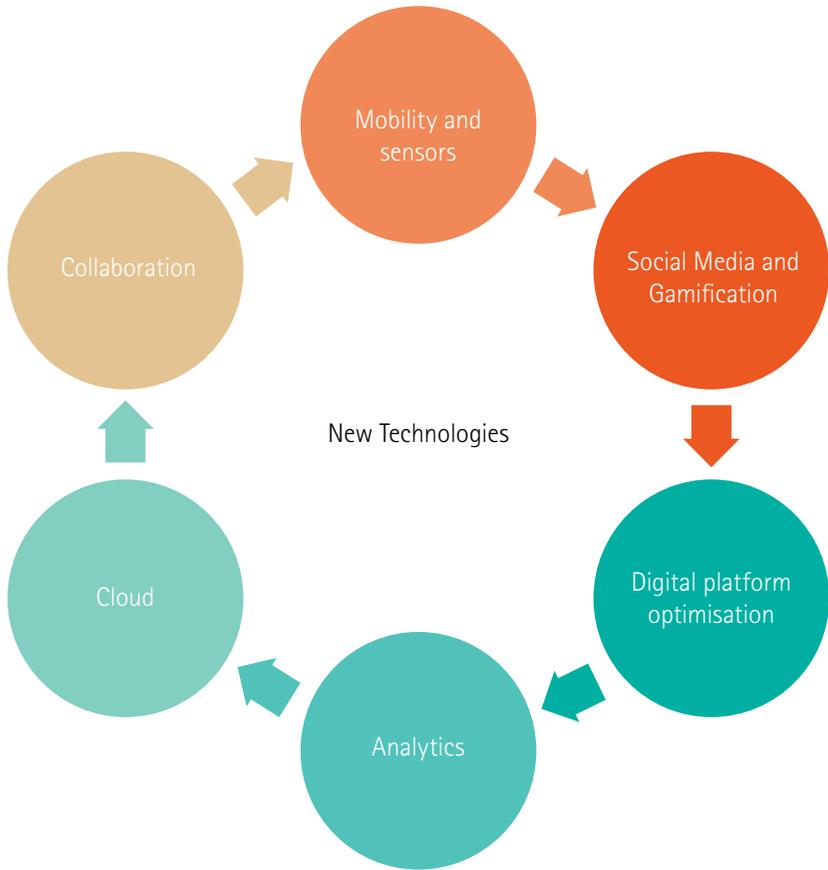
- improved brand management and social media engagement
- optimised and personalised web experiences for consumers
- seamless multi-channel sales and service across phone, online and new channels such as mobile and social media
- a collaborative 'digital workforce' culture, harnessing techniques such 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:

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

As has been demonstrated historically, when gaps in the market and consumer demand are not being met by incumbent insurers, external parties or new players have stepped in, with transformational impacts on the industry, for example: direct distribution, aggregators, credit hire, claims management firms etc. There is a real risk that once again players from outside the industry or new start ups will take the initiative, and if insurers fail to embrace the digital era, they will once again be in catch up mode and risk becoming obsolete.

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

In the personal lines market, there are already a large number of non financial services companies playing the game very well. Currently their focus is on leveraging their brand and retail distribution capabilities in conjunction with the manufacturing strength of traditional insurers. However, increasingly, control of digital distribution will provide more valuable customer insights and data that could give these players a powerful advantage 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. Other non-financial services industries are also likely to further encroach on insurance markets, such as automotive, telecommunications, and owners of customer / object data or digital distribution networks.

At the very least the balance of power could shift in favour of distribution partners, at its most extreme the role of the insurer is under threat

Whether these organisations choose to continue their existing models of collaboration with their insurance partners or go it alone is a moot point. However, if they are able to derive more value from distribution and consumer access, there is a risk that they will at the very least be able to demand more favourable terms of trade or take a bigger share of the value chain, pushing insurers further down the route of becoming commodity risk carriers.





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. For example, telematics has the potential to transform motor insurance, but will insurers exploit this opportunity before mobile telecoms and automotive companies who are chasing the same customers?

What is the role for insurers in a world in which consumers lookup best deals via a Search Engine, download policy cover from a digital media store, pay as they go with their car manufacturer, or top up cover with their smartphone provider? How may underwriting be changed if consumers look to self select and pool risk through recommendations on social networks, and insurers underwrite a consumer group rather than an individual?

The insurance industry is facing an uphill battle

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

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. Insurers who can master each of these areas have the template for high performance in the future.

However, 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 and 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

In the digital era no-one can be sure as to what the winning digital bets will be. Accenture's experience suggests that the approach of making one or two big, multi-year bets and major transformational engagements 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, rather than launching one or two big transformation programmes. 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.



Conclusion

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: P&C Software Suite
- 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 services providers in the insurance market 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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Reinventing the customer experience

❓ **The 'Analytic' Insurer**
Richer insights and smarter decisions to enable better outcomes

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What's next?

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- Insurance 2020

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Accenture Experts

If you would like to hear more about Accenture's views on this topic or would like to discuss how you can address the strategic and operational questions highlighted in this paper, please contact:

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