THE CLOUD IMPERATIVE FOR INSURANCE
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Executive Summary

Historically slow to change and hampered by substantial technical debt, the insurance industry has gradually moved to action on technology enhancements in the last decade (spurred by the 2008-2012 financial crisis). Industry leaders are benefitting from early adoption of cloud technology. However, we estimate that 10 percent or less of the overall insurance industry’s workload is currently running on public cloud platforms. That leaves most insurers without the cost and scalability benefits the public cloud offers and falling behind industry leaders.

Emerging technologies generally take significant time to implement and for the full benefit to be realized. For the insurance industry, cloud has long been more aspiration than reality. In our July 2019 Cloud Readiness Survey, only 56 percent of insurance company executives said they had developed and implemented a new IT operating model to support the transition to the cloud.¹ By March, that lack of progress was evident in the industry response to COVID-19. Insurers struggled to pivot to remote work and to continue meeting demands for sales and service.

Cloud adoption strategies may be nuanced depending on the insurer’s size, market position or book of business, but the need to migrate to the cloud is near universal. Declining GDP threatens top-line revenues across the industry, and claims payouts are almost certain to increase. In response, the technology cost reduction to be realized through strategic cloud investment is the first place to look.

There is functionality that may help with the revenue pressure as well. COVID-19 is likely to have lasting impacts on customer behavior. The need for greater agility to create virtual agents and direct-to-consumer models at scale will only increase. The way to capture that revenue in digital platforms is through cloud-enabled digital customer and agent journeys enhanced by applied intelligence.

The combination of continued “compressive disruption” pressure on insurers, easy access to transformative cloud technology and recent exacerbation of macro-economic conditions now requires insurers to take bold action to stay ahead of their peers.

¹Accenture, Cloud Readiness Survey in Insurance, 2019
The Backdrop of Technology Disruption

As new technologies emerge, customer needs and expectations quickly expand outside the boundaries of traditional products and services. As a result, B2B and B2C industries alike are now engaging platforms and ecosystems to access new customer segments and ushering in a disruptive wave of industry convergence. By applying advanced technologies, such as AI and IoT, industries can maximize agility in their customer-facing, middle- and back-office functions, reduce costs and optimize operations.

Insurance Industry Pressures

Legacy technology has dragged down the economics of the insurance industry for a long time. Policies written decades ago, some in COBOL and sitting on mainframes, remain on the books as long-tail exposures. This legacy “tech debt” is a major concern for the industry and one that can only be fully addressed with scalable cloud solutions. As our 2019 Cloud Readiness Survey report noted, insurers who migrated to automated operations on cloud saw IT run costs drop approximately 30 percent.

As insurers entered 2020, they seemed well positioned for growth in most markets. Global premiums had just reached their all-time high of US$5 trillion, and US GDP was expected to rise 1.6 percent. However, the industry continued to face the classic pressures of “compressive disruption” with low growth, slowly declining EBITDA and increasing barriers to entry.

Since the COVID-19 outbreak, insurers have suffered a severe financial hit, with aggregate valuations dropping on average 20 to 30 percent across global markets. Three key challenges create a burning platform for insurers:
Insurers face a difficult road ahead to combat this multi-dimensional set of challenges to their economics and operations. They also share in cross-industry challenges with a pressing need to enable greater agility across their organizations and adapt new ways of working.

**Path Forward**

Insurers must respond to these market pressures in order to navigate recovery and find pockets of growth in their core businesses and adjacencies. A cloud-powered strategy, tailored to the insurer’s book of business and competitive position, can address multiple aspects of this challenging situation, enabling:

- **Growth Acceleration**
- **Data-driven Digital Transformation**
- **Cost Curve Transformation**
**Growth Acceleration:**
Defend and expand market share with new models for existing products and new platform/ecosystem models for new offerings.

**Digital Attacker (SMB):**
COVID-19 has had disproportionate impact on small/medium businesses and simultaneously increased receptivity to digital models. Insurers will need to re-architect their business model (i.e., digital attacker) with cost efficiencies to become more agile and fast-track product rollout for existing business risks (i.e., income protection/continuity) and services for new risks (e.g., cyber insurance wrap-arounds including security monitoring and restoration for SMBs moving online).

**Platform & Ecosystem Offerings:**
To expand revenue through cross-sell/up-sell, insurers will need to better understand consumer behavior in attractive demographic segments and connect with ecosystem partners to deliver platform-based services beyond traditional insurance products (e.g., Health + Financial Wellness for Millennials, Home + Health + Wealth services for aging populations).

**Re-inventing the Offering:**
Insurance demands are changing (declines in asset ownership, gig and contract work & usage, IoT instrumentation) and insurers must accelerate product design and market entry to address changing risks in market (e.g., liability coverage for autonomous vehicle manufacturers, Smart Contract + climate sensor for crop & Inland Marine products).
Data-driven Digital Transformation:
Drive digital transformation in the business, led by enhanced data disciplines for new business/renewal sales, service and claims.

Digital Journeys:
Insurers (most of whom continue to operate with local agents) face an amplified need to deliver remote/digital sales and service as more customers explore digital interactions. Insurers must move quickly, merging data and analytics with behavioral insights to understand the needs of customers and predict intentions based on interactive signals. Success of the designed digital journeys is visible and self-sustaining, based on operational metrics such as percent of new business and renewals bound in remote/digital model, percent reduction in service/operations cost and percent of interactions deflected to digital channels.

AI-led Claims
Claims represents approximately 75 percent of the economics of an insurer, and has traditionally been the slowest to embrace innovation (with some legitimacy, considering the conservatism required of the function). However, with new demands of remote teams and claim adjudication methods, this is an opportune time to contextualize deep analytic insights across industries (e.g., Automotive, Health, Life Sciences, Insurance) to AI-led claims and utilize modern data platforms to transform claims.

Cost Curve Transformation
What’s possible? –
- Insurers delivering Combined Ratio results of approximately 85 percent.
- Expense Ratios of approximately 20 percent underpinned by modernized technology that brings Run/Change IT costs from 85/15 to 75/25.
- Through a combination of Smart Spend (providing program funding), Tech Modernization and Smart Op Model, insurers can identify and focus on strategic core capabilities while accessing enabling capabilities “as a service.”
INSURANCE – CLOUD VALUE HEATMAP

Benefits of implementing cloud capabilities across the Insurance business architecture

Differentiation
To boost top-line growth to insurers and reduce overall risk exposure

Agility
Nimbleness of IT for insurance operations

Efficiency
Drive lower TCO for insurance back-office functions

Impact is degree to which the operations of a function change as a result of emerging Cloud and InsurTech

INSURANCE – CLOUD VALUE HEATMAP

Deep dive into policy and claims

2.2.2 Underwriting & Pricing

Appetite Mgmt. Marketing
Segmentation Mgmt
UW Rules & Guidelines
Predictive Modeling
Clearance & Registration
Risk Qualification Assessment
Account Info/Coordination
Line Setting

2.2.3 Policy Servicing

Rating/Quoting
Submission & Issuance
Change Policy/In Force or Mid-term Adjustments
Scheduled Activity/Renewals
Cancellation & Reinstatement
Policy Storage & Retrieval
Book Roll/Transfer

2.2.4 Claims

Intake
Allocation
Claims Administration
Claims Validation/Assessments/Fraud Detection
Recovery
Financials
Supply Chain/Vendor Management

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State of Cloud in Insurance Today

In general, insurers have been slow in migrating core applications to the cloud. Platform transition to cloud in key areas such as claims management is rare, and only a few insurers are taking advantage of cloud capabilities for their most important platforms.

A SNAPSHOT OF INSURANCE INDUSTRY CLOUD PROGRESS

<table>
<thead>
<tr>
<th>CLIENT</th>
<th>AZURE</th>
<th>AWS</th>
<th>GCP</th>
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<tbody>
<tr>
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Good Progress | Moderate Progress | No/Little Progress
# MAPPING THE CLOUD OFFERINGS TO THE POLICY USE CASES

## APPLICATION
- Submit/process applications through smart devices
- Dynamic question sets to collect information based on risk
- Leveraging APIs to bring single view of customer
- Microservices-based architecture for integration with other services during quote creation like VIN validation, etc.
- Use Natural language processing & machine learning through quotation process
- Self-service options for agents for policy information and coverage options
- Predictive analytics to detect application fraud
- Reward customers for low-risk behavior

## UNDERWRITING
- Multi-channel support for agents, brokers and other third-party entities
- On-demand insurance based on duration & real-time data
- Personalized & customized coverage offerings
- Integrate with structured and unstructured data sources (social media, IoT and telematics)
- Fully automated regulatory reporting
- Automated underwriting for low-level or standard risks
- Optimize underwriter assignment and provide insights on workbench
- Offer alerts and notifications to customer based on coverages
- Automated rate changes using AI
- Rate analysis tools to identify impact of a rate change
- Accelerated custom product development using pre-configured templates

## NEW BUSINESS AND ISSUANCE
- On-demand insurance based on duration & real-time data
- Self-service capability on routine endorsements and renewals
- On-demand interactive document generation through channel of choice
- Open APIs for using real-time third-party data for underwriting
- Automated underwriting for low-level or standard risks
- Optimize underwriter assignment and provide insights on workbench
- Integrate with structured and unstructured data sources (social media, IoT and telematics)
- Allow agents to review and bind/issue policies on smart devices
- Offer alerts and notifications to customer based on coverages
- Automated rate changes using AI
- Rate analysis tools to identify impact of a rate change
- Accelerated custom product development using pre-configured templates

## POLICY MANAGEMENT AND TRANSACTIONS
- On-demand insurance based on duration & real-time data
- Self-service capability on routine endorsements and renewals
- On-demand interactive document generation through channel of choice
- Open APIs for using real-time third-party data for underwriting
- Automated underwriting for low-level or standard risks
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## PRODUCT DESIGN & MAINTENANCE
- On-demand insurance based on duration & real-time data
- Self-service capability on routine endorsements and renewals
- On-demand interactive document generation through channel of choice
- Submit FNOL
- Use AI agents for information capture
- Single customer view to empower customer support team
- Use AI agents to interact with claimant and agents for information capture

## MAPPING THE CLOUD OFFERINGS TO THE CLAIMS USE CASES

### FNOL
- Submit FNOL through platform of choice
- Business validations for FNOL submissions
- API-based integration with other services during FNOL creation like VIN validation, etc.
- Single customer view to empower customer support team
- Use AI agents to interact with claimant and agents for information capture

### CLAINT VALIDATION & ASSIGNMENT
- Claims prioritization based on social media listening
- Claims prioritization based on social media listening
- Claims prioritization based on social media listening

### CLAIMS PROCESSING & ADMIN
- AI driven STP of claims based on risk/coverage impacted
- Enable claim handlers to process claims on smart devices
- Using Open APIs to be fully connected with partner ecosystem for claims inputs like surveyor reports
- Digital platform access by partner privileges
- Advanced analytics for location, workload & claim type based assignment of ecosystem partners

### VENDOR MANAGEMENT
- Service and case management alerts to partners to act instantly
- Utilization of cloud-based services and sharing capabilities with partner ecosystem
- Automated rate changes using AI
- Rate analysis tools to identify impact of a rate change
- Accelerated custom product development using pre-configured templates

### FINANCIALS
- Real-time integration with payment systems
- Cloud-based sophisticated capabilities for claims finance processing
- Utilization of technologies like blockchain for faster financial processing and attribution of accountability
- Full suite of reporting and monitoring across L&O, regions, etc.

### SUBROGATION / RECOVERY
- AI-based claims scoring for upfront subrogation potential calculation
- Automated rate changes using AI
- Rate analysis tools to identify impact of a rate change
- Accelerated custom product development using pre-configured templates
- Advanced analytics for identifying subrogation recovery leakage

### HBOI
- Database Services
- Cloud Services
- Mobile Services
- Compute Services
- Networking Services
- Analytics & AI Services
The competitive field is starting to separate. Our research suggests that insurers who made early and bold moves in cloud are already reaping the benefits. Leaders are on course to double their revenue base for the eight-year period between 2015 and 2023. Meanwhile, Laggards are likely to achieve less than half that increase.¹

Value Case for **Cloud Now**

**Why Cloud?**

The economics of moving to the cloud are two-fold: direct improvements to technology costs and catalyzing the ability to capture the economic upside of business improvements.

**Winning Formula:**

*Migrate. Accelerate. Grow & Innovate... with an Industry Cloud Focus*

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**Migrate**

Migrating infrastructure and software to the cloud **reduces IT “Run” costs** and technical debt, and enables scalability on demand.

**Accelerate**

Building on a more robust cloud infrastructure, accelerate technology enhancements and impact basic efficiencies in business operations, **reducing IT “Change” costs and capturing efficiencies in business operations** (e.g., service center enhancements, reduced rework, reduced system lag and down times) demand.

**Grow and Innovate**

Platform solutions **accelerate and de-risk business improvements** with proven, evolving solutions—including claims optimization (Expense & Loss Ratio) and enhanced agent/employee journeys for renewal retention and new business.

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¹ Accenture, Future-ready Insurance Systems, 2020
Why Now?

The cloud value proposition has never been stronger.

- Cloud costs have decreased consistently in the past five years with continual price drops and structural pricing improvements.
- In parallel, the public cloud services market has expanded; approximately 30 percent CAGR in the past five years and expected to grow from $300B this year to $411B by 2022.⁵
- The major public cloud platforms are releasing several thousand new, innovation-enabling services each year with increasing sophistication and tailoring for specific industries.
- Security measures and regulatory compliance have fully matured and now offer stronger controls than on-premise solutions.
- Finally, cloud platform providers are now willing to co-invest to accelerate the journey in exchange for committed workload consumption. This is a critical enablement lever to capture.

INSURERS MAKING **BOLD MOVES IN CLOUD** WILL HAVE THE COMPETITIVE ADVANTAGE

<table>
<thead>
<tr>
<th>Large U.S. Life Insurer</th>
<th>One of the Largest U.S. P&amp;C Insurers</th>
<th>One of the Largest Brokerage Firms in the World</th>
<th>A Large U.S. Specialty Insurer</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Partnered with AWS to innovate and meet the changing customer expectations</td>
<td>• Client along with Accenture created and launched a digital insurer in just 223 days</td>
<td>• Transformed its ability to identify risks by running their risk assessment algorithm instances on Amazon Elastic compute cloud</td>
<td>• Started a journey to cloud to be more agile and responsive</td>
</tr>
<tr>
<td>• Mass migration to AWS enabled the insurer to reduce its data center footprint to drive business transformation and operational efficiency</td>
<td>• Successfully assembled eight different cloud models into a cohesive business enabling platform</td>
<td>• By processing on AWS, recalculating policies took minutes rather than hours or days</td>
<td>• Plan to migrate business applications over 18 months to Azure cloud</td>
</tr>
<tr>
<td>• Migrated production workloads to AWS, including mission-critical functions such as data analytics platform, customer portals and direct-to-consumer services</td>
<td>• Implemented 11 major applications including the fastest full suite of Duck Creek ever across three clouds</td>
<td>• Using AWS enabled them to scale up their algorithm and deliver more granular assessments to customers</td>
<td>• Cloud capabilities will drive material cost savings through integrated application and infrastructure operating model</td>
</tr>
<tr>
<td>• Leveraging AWS’s fault-tolerant, secure infrastructure for prototyping and developing new applications using AWS’s breadth of functionality</td>
<td>• Developed a multi-cloud, scalable platform</td>
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<tr>
<td>• Built a data lake on AWS and Amazon EMR to support its anticipated data growth and analytics strategy</td>
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Moving to Action

More insurers are eager to mobilize and see the full benefit of cloud. However, many initiatives struggle to gain traction. It is clear that only strongly sponsored top-down initiatives created to help build a data-driven culture will achieve the full benefit cloud offers.

The journey will differ for each insurer depending on their existing technology architecture and their maturity state in modernization. To inform your cloud strategy we recommend drawing from the growing body of industry successes and precedent to inform your approach across key dimensions, including data architecture, security and compliance, best-fit platforms (single vs. multi-cloud), migration approach, etc.

The following guidelines can help further tailor your roadmap:

- Move non-core applications and functions to software-as-a-service (SaaS) on cloud.
- Rehost high-volume, scalable functions on infrastructure-as-a-service (IaaS).
- Establish a modern cloud-based data infrastructure to take advantage of data, AI and machine learning.
- Leverage platform-as-a-service (PaaS) and Microsoft, Amazon, Alibaba, Google (MAAG) innovation to power advanced products and services.
- Use a digital decoupling approach to decompose other legacy technologies; e.g., reducing mainframe data processing to reduce MIPS utilization.
- Perform rapid migration, guided by the value path that we can help define based on our industry experience.

A thorough analysis of value opportunities for the insurer’s business helps complete the roadmap and prioritization. Early implementation of use cases that create significant workload consumption can assist in securing co-investment from cloud providers to help offset migration costs.
<table>
<thead>
<tr>
<th>PHASE &amp; ECONOMIC LEVER</th>
<th>CLOUD APPLICATION ARCHITECTURE PATTERNS</th>
<th>INSURANCE TECHNOLOGY AND BUSINESS USE CASE EXAMPLES</th>
<th>BENEFIT OPPORTUNITIES FOR INSURERS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Migrate: IT Run Cost</td>
<td>Data Warehouse &amp; Reporting</td>
<td>• Regulatory reporting</td>
<td>20-60% - Technology cost reduction; operational efficiencies</td>
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<tr>
<td></td>
<td></td>
<td>• Data warehousing</td>
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<td>• Client reporting</td>
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<tr>
<td></td>
<td></td>
<td>• Business reporting</td>
<td></td>
</tr>
<tr>
<td>Migrate: IT Run Cost</td>
<td>Storage Optimization</td>
<td>• File share reduction</td>
<td>10-90% - Capacity planning enhancements; technology cost reduction; greater security</td>
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<td></td>
<td></td>
<td>• Archiving and safe storage rationalization</td>
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<tr>
<td>Accelerate: IT Change</td>
<td>Web &amp; Digital Applications (includes IaaS, PaaS &amp; SaaS)</td>
<td>• Client and agency facing portals</td>
<td>30-50% - Business innovation in line with digital agenda, time to market and agility, revenue focus</td>
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<tr>
<td>Cost</td>
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<td>• CRM/CLM &amp; enhanced client experience</td>
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<td></td>
<td></td>
<td>• Internal policy and claims portal</td>
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<tr>
<td>Accelerate: IT Change</td>
<td>Data Sovereignty &amp; Security</td>
<td>• Product design</td>
<td>30-40% - Accelerated application delivery, greater security</td>
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<tr>
<td>Cost</td>
<td></td>
<td>• Actuarial tasks</td>
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<tr>
<td></td>
<td></td>
<td>• Front office applications</td>
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<tr>
<td>Accelerate: Business</td>
<td>Workspace Virtualization</td>
<td>• Virtual workspaces and collaboration tooling</td>
<td>10-30% - Time to market, agility and flexibility; increased employee productivity</td>
</tr>
<tr>
<td>Efficiency</td>
<td></td>
<td>• Right-size tools for productivity and greater innovation</td>
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<tr>
<td>Innovate &amp; Grow:</td>
<td>Big Data Ecosystem &amp; Analytics (includes Machine Learning/AI)</td>
<td>• Analytics for usage-based insurance products</td>
<td>40-70% - Develop new solutions, targeted marketing/sales</td>
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<tr>
<td>Business Growth, Claims</td>
<td></td>
<td>• Risk modeling and pricing cloud analytics for targeted marketing and advertising</td>
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**INSURERS CAN BEGIN THEIR CLOUD JOURNEY BASED ON THEIR BUSINESS PRIORITIES**

**Insurer Journeys**

- **Client 1 – Large NA Insurer**
  - B – A – C – D – E – F

- **Client 2 – Multi-line EU Insurer**
  - B – E – D – C – A – F

- **Client 1 – Large Global Insurer**
  - B – D – E – A – C – F
The cloud will be both transformational and disruptive in the post COVID-19 world, offering savvy insurers improved scalability, efficiency and security. Insurers must move aggressively now on their strategy and transformation roadmap if they are to gain a true competitive advantage.

**Comments**
- Aligning business value and MAAGs interests can help maximize investments from platform providers to help accelerate the journey
- COVID-19 has shifted the prioritization of both business capabilities and increased the urgency for cost optimization
- Emergency Tech such as IoT enable disruptive plays with adjacent industries including autonomous driving and personal health monitoring

The cloud will be both transformational and disruptive in the post COVID-19 world, offering savvy insurers improved scalability, efficiency and security. Insurers must move aggressively now on their strategy and transformation roadmap if they are to gain a true competitive advantage.
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