together with

WHITE PAPER

Rethinking Insurance: Customer Value and Solution Innovation for the Digital Age

James Webb, Fadata
Dave Smith, Charles Taylor InsureTech

CONTENTS

Insurers today are under pressure from a number of directions including low GDP growth, higher regulatory costs, and tight pricing exacerbated by the rise of the aggregators. They need to turn their core insurance businesses back into a reliable source of growth and profitability. The fast-changing digital economy, however, could make or break any plans. This white paper examines the issues, with examples from the UK market.

New technologies are offering opportunities to improve customer relationships and product innovation but they are also generating strategic risk for established insurers (Figure 1). Customers may switch to faster-adapting competitors or even sidestep traditional insurance providers altogether in favour of global digital brands or disruptive start-ups like Lemonade, a peer-to-peer personal lines insurance company that launched in New York in late 2016, and Guevara in the UK, offering peer-to-peer motor insurance.

Traditional barriers to entry to the insurance market are fading and, according to global research from PwC, three quarters of insurers think part of their business is at risk of disruption.[1] UK regulators seem particularly determined to open up their market with the Financial Conduct Authority (FCA) offering a "regulatory sandbox" so financial firms can test radical new ideas.[2]

For insurance market incumbents, it is becoming critical to find the right path through the new customer landscape.

The shock of the new

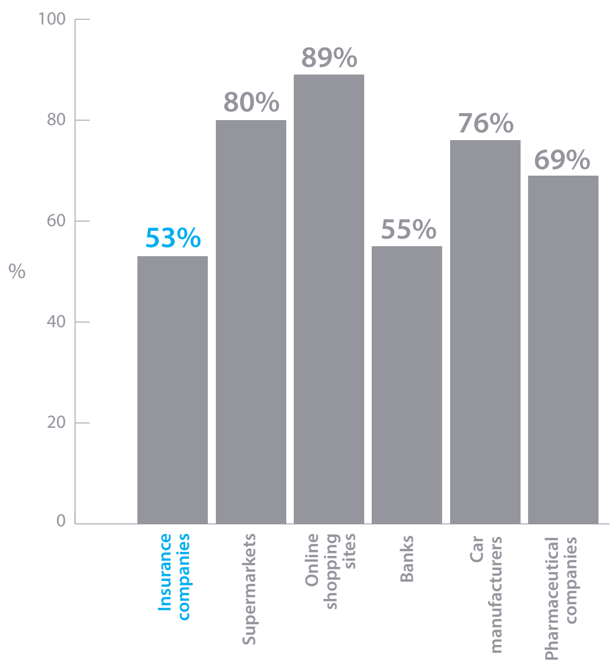
At the heart of the challenge is a shift in customer expectations, driven by efficient digital experiences outside the insurance sector in retail, travel, publishing, entertainment and, more recently, the banking sector.

Retail and professional customers are now better informed and increasingly expect levels of service that are tough to deliver: communication across multiple channels, speed of response, ease of use and product simplicity, sharper pricing, and engagement through free and "value-added" services.

The digital conversation with customers is about to get a lot more intense as the use of mobiles in financial services rises and customers are further empowered by social media. One indicator: the number of devices connected to the internet, the Internet of Things, will grow from 6.4 billion in 2016 to over 20 billion by 2020.[3]

Figure 1: Digital Disruption

Figure 2: UK Consumers Trust Insurers Less than Other Firms



***Source:** "Reimagining Customer Relationships: Key Findings from the EY Global Customer Insurance Survey 2014."*

Out with the old

For insurers, the chance to change their relationship with customers may be good news. Consumers trust insurance companies less than supermarkets, online shopping sites, car manufacturers and even the post-crisis banks, e.g., a survey by EY found 53% of UK consumers cited complete or moderate trust in insurers compared to 80% trusting supermarkets (Figure 2).[4]

Some of the difficulties are down to the nature of the product, with insurance often described as an "ought to have" rather than a "want to have" product.

But much of the problem may be caused by the lack of any ongoing relationship: the same EY survey found that, across mature economy insurance markets, 56% of customers reported no real interaction with their insurers in the previous 18 months.[5]

Re-inventing relationships

The next wave of the digital revolution offers the chance to mend the hole in customer communications and begin innovating around customer needs, which may not always be centred on traditional insurance.

New technologies are fundamentally altering the economics of communicating with customers and analyzing new streams of information, potentially leading to a much tighter understanding of customer aspirations, risk segmentation and the trigger points for the purchase of insurance and new value-added services. Technological advances also make it more achievable for insurers to develop a more rounded view of a customer across multiple products and channels.

UK insurers have been trying to catch up for the last couple of years with the likes of Aviva, who set up a "digital garage" in Hoxton, London, to spearhead digital strategies such as giving customers a single view of the products they have purchased.[6]

Three key markers of future competitive strength are becoming clear:

- **Customer engagement** – There is no road back. Customers now want to use multiple channels to engage with insurers and to switch between these channels during, for example, the purchasing and claims process. So far, insurers are struggling to offer a quality user experience across the increasing number of social media channels from Twitter to Facebook. It is proving an even bigger challenge to deliver a truly integrated "omnichannel" customer experience in which all communications – through contact centres, agent channels, website, and various apps and social channels – are fully integrated on one digital platform in real time (Figure 3).[7]

  But there are many potential upsides to the digital revolution. New digital channels mean that customer loyalty can be developed through a host of tactics, including value-added services, from the useful (e.g., health monitoring through personal devices) to the entertaining. Meanwhile, insurers are starting to use digital technologies to reduce repetitious form filling and offer gaming-style interactions that ease customers through complex data gathering. This kind of "gamification" can already be seen in UK insurer mobile apps, e.g., Aviva Drive, a free app from the insurer that rates driving skills.[8]

- **Risk personalization and 'segments of one'** – Everyone wants to be treated like an individual. New technologies will make it possible for insurance customers to tailor contracts, mix and match features to cut costs, or increase coverage at will throughout the contract life. As one example of the new flexibility, start-up Trov launched mobile-based on-demand insurance for personal items in Australia in 2016 and in the UK market in partnership with AXA.[9] Insurers will also be able to reach out to customers at the right purchasing moment, with offers triggered by customer behaviour or product purchases and informed by ever-more keenly segmented data. Customer self-service through digital channels, helped by the next generation of virtual assistants and robo-advisors, will make this level of individualization more economic to implement.

  Meanwhile, information from new streams of relationship, sensor and social data is starting to help insurers track individual customer behaviour and risk, and, importantly, anticipate their needs. The path won't be completely straightforward. In September 2016 the UK regulator, the FCA, found that the use of big data is beginning to generate benefits for general insurance consumers.[10] But shortly after, Facebook put the brakes on motor insurer Admiral's plan to use personality indications in social media posts to assess if young drivers were eligible for discounts.[11]

  While privacy concerns were the obstacle for Admiral, younger consumers in the UK seem generally willing to share data, with 63% of customers aged 25-34 happy to let home insurers track their behaviour compared to 38% of customers overall, according to a 2015 survey by Deloitte.[12]

Figure 3: The Omnichannel View

Vehicle telematics is already reshaping the UK car insurance market for young drivers as insurers invest in tracking individual driving habits – a trend that might also transform driver behaviour and physical risk. Many other kinds of sensor data will help insurers validate risk profiles and may lead some insurers to become trusted advisors on real-time risk prevention to a much greater extent than today, e.g., in relation to monitoring commercial equipment such as refrigerators, tracking building material deterioration, and preventing workplace injuries. Drone surveillance is already being put to use to speed up claims assessment, e.g., for flood damage in Aberdeenshire.[13] Streams of sensor data will, however, demand sophisticated data storage and analytical skills across the life cycle of an insurance product.

- **Rapid repricing, solution innovation and distribution** – Customers in the UK have proved surprisingly fickle in their relationships with insurers, prompting providers to respond quickly to shifts in market pricing to defend market share. But insurers needn't allow price to become the only differentiator, despite research indicating that competitive pricing is a major driver of customer loyalty (e.g. in a 2017 report by Accenture[14]). Price proved to be the easiest product feature to compare in the first wave of aggregator-driven digital disruption, but consumers are coming to understand that cheap is not always best when managing risk.

The second wave of digital disruption will allow insurers to pursue a finer balance between competitive pricing and offering customers added value in both the core insurance product and new services. To succeed in this, insurers must become adept at gathering new information about the customer and then launching innovative products more quickly and at a lower cost than competitors. The rapidity of the product innovation cycle – gathering data, generating insights, designing products, delivering products – is likely to be critical in shutting out less agile competitors (Figure 4).

More nimble insurers will be better positioned to offer products that can quickly meet a person's specific insurance needs, and ideally only for as long as the customer needs to be covered.

To become more relevant to customers, insurers may need to significantly expand their offerings, or place them in the products and services of related industries. The latter involves working with partners with well-established distribution platforms for propositions that are more 'front-of-mind' with consumers.

Reality and dreams

Across the industry, however, much of this sounds like a pipe dream because the operational cost of supporting new customer channels and speeding up product innovation is too high.

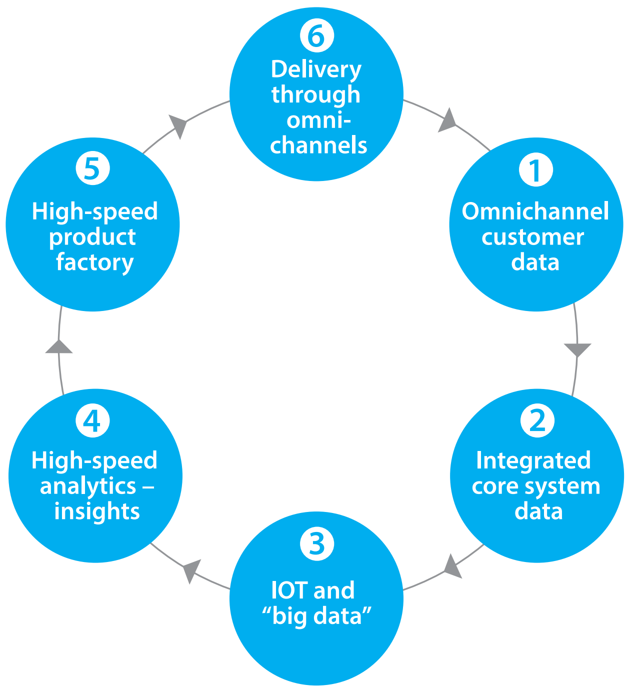
Legacy systems and the old-style business processes that surround them are part of the problem. Many UK insurers are still working with technologies invented in the 1980s and 1990s to administer policies, claims, billings and more.

These systems can be cumbersome and costly to run, often demand old-style workflow and manual interventions, and create information and business process silos that make it difficult to bring information together rapidly, e.g. for servicing customers and building a rounded picture of customer needs. The disjointed nature of the core systems will make it difficult to accumulate new information about customer behaviour across products and product lifecycles, and to build insights through new forms of data analysis, e.g., artificial intelligence.

Older technologies also make it difficult to connect back-office customer data to customer-facing digital operations. Insurers find themselves in a trap: struggling with customer communication across multiple channels and unable to introduce the kind of customer self-service that would cut operating costs while improving customer experience.

To become more relevant to customers, insurers may need to significantly expand their offerings, or place them in the products and services of related industries.

Figure 4: Customer-focused Product Innovation



Not just cost savings

Overcoming these difficulties involves insurers renewing and integrating core systems, overcoming the straight jacket of outdated legacy infrastructure and using new and efficient technologies to consolidate and rationalize work- and data-flows across business and product lines.

This can be implemented in phases. However, any strategy for improving core system technology needs to take account of all the operational attributes insurers will rely on in the future (Table 1).

For example, improving core system efficiency will lower costs and support future flexibility on pricing. But other benefits are just as important, such as the ability to easily connect core systems – and all their data – to customer-facing transactions to speed up and improve the customer experience.

More efficient back-office operations, meanwhile, will free up staff for more creative and customer-oriented tasks including new forms of data analytics.

As ever, the goal should be to simplify processes and introduce straight-through processing where possible. However, building in operational agility is now also critical. Systems must be easy to modify and interact efficiently with the broader solution ecosystem, including distribution partners, third-party data providers, web-based business services, digital partners, and the firm's wider IT infrastructure. The fast exchange and processing of data lies at the heart of tomorrow's customer-focused strategies.

The infrastructure of innovation

Currently, many insurers say that it takes weeks for them to deliver a simple change in the pricing of an insurance product, and months to launch a new product. Yet today's insurance start-ups can reprice a product in hours and launch new products in a matter of weeks or even days.

Historically, insurers' IT systems were built with specific ends in mind and launching a new product has meant tailor-made coding by highly skilled staff.

A whole business culture has grown up around this operational reality including elaborate specifications of requirements and hand-over routines between business and IT.

Meanwhile, insurers have found it increasingly difficult and costly to find IT staff with skills in adapting legacy systems.

It's not just the fundamental technology. A key advantage of modern approaches is that they do not attempt to reinvent the wheel each time a product is brought to market. Insurance products are treated as bundles of components, each of which can be reused to quickly construct many different products in insurance "product factories".

Operational attribute	Market driver	Operational goal
Speed	Customers increasingly demanding real-time responses, instant transacting, personalised content	Significantly quicker transactions and data processing to answer customer demands
Efficiency	Market transparency and disruptive innovation is driving the need for sharper pricing and new levels of customer service that can only exist when supported by efficient infrastructures	Reliable, fast, low-cost operations to reduce processing and transacting costs, and to simplify customer self-service
Agility	Markets changing shape fast under influence of digital consumer and disruptive business models	Build in the agility to cope with fast-changing operational demands in terms of volume changes, new product types and markets
Scalability	Insurers are under pressure to innovate, test markets, then scale up efficiently	Business operations need to scale quickly without attracting additional costs
Innovation	Insurers need to deliver new and enhanced solutions, more quickly	Rapid, low cost innovation based on data-driven insights into customer needs, implemented using "product factory" and other component-based approaches

Table 1: Business Operational Demands

The fast exchange and processing of data lies at the heart of tomorrow's customer-focused strategies.

In the same way, new approaches allow technology components from pricing, billings and collections, and claims modules to be re-used efficiently in multiple applications across business lines and new products.

Modern systems are designed to be easy to modify. With the right training, business divisions will soon be able to institute product, pricing and process changes themselves without the need for specialist IT support.

In turn, quicker product launches will foster a "test and learn" culture of innovation, as businesses find they can rapidly turn hard-won knowledge about customers into successful products.

Conclusion

The modern consumer is changing, whether insurance providers are ready or not. With habits increasingly driven by the use of modern, mobile applications, customers increasingly expect to be able to get what they need from an insurer faster and more easily, using a growing number of channels and means of exchanging data. They want solutions that better fit their own needs, and more streamlined ways of using them.

This represents an unprecedented opportunity for insurers to make a step change in customer offerings and relationships, and to find new ways to innovate around customer needs.

Change should be led by this ambition rather than simply the pursuit of operational efficiency, important as it is. It is also not enough to carry on doing the same things better. The drivers of competitiveness are rapidly changing for insurers, leaving incumbent providers increasingly vulnerable. Companies that adapt quickly to the competitive demands of the digital age will hold the upper hand.

For insurers, the challenge is clear: make it easier to provide new and innovative solutions to individuals' needs and create engagement models that enable customers to communicate and transact more conveniently, across various channels and media.

Reference

[1] PwC, Opportunities Await: How InsurTech is Reshaping Insurance, Global Fintech Survey, June 2016, p.1

[2] The first cohort had a deadline for applying of July 2016. See FCA, Project Innovate and the Innovation Hub, Regulatory sandbox: https://www.fca.org.uk/firms/project-innovate-innovation-hub/regulatory-sandbox

[3] "Gartner Says 6.4 Billion Connected 'Things' Will Be in Use in 2016, Up 30 Percent From 2015", see http://www.gartner.com/newsroom/id/3165317

[4] EY, "Reimagining Customer Relationships: Key Findings from the EY Global Customer Insurance Survey 2014," page 9

[5] EY, "Reimagining Customer Relationships: Key Findings from the EY Global Customer Insurance Survey 2014," Figure 8, page 23

[6] Oliver Ralph, "Aviva Opens 'Digital Garage' in Technology Push," Financial Times, 18 January 2016, see https://www.ft.com/content/7c384fd0-bdd1-11e5-846f-79b0e3d20eaf

[7] See Graham Ruddick, "Facebook Forces Admiral to Pull Plan to Price Car Insurance Based on Posts", Guardian, 2 November 2016, web edition, see https://www.theguardian.com/money/2016/nov/02/facebook-admiral-car-insurance-privacy-data; see further details on Admiral's planned social media analysis here: https://www.theguardian.com/technology/2016/nov/02/admiral-to-price-car-insurance-based-on-facebook-posts

[8] The Aviva app is described at http://www.aviva.co.uk/drive/?source=AFC1&entry=71921&cmp=afl-affiliates_car_non_cashback-affiliate_window-multiple-afc1-71921-

[9] See Trov, "Munich Re to Underwrite Trov's World Leading On-Demand Insurance in the United States", press release, 8 September 2016, see http://www.prnewswire.com/news-releases/munich-re-to-underwrite-trovs-world-leading-on-demand-insurance-in-the-united-states-300325261.html

[10] FCA, Feedback Statement (FS16/5): Call for Inputs on Big Data in Retail General Insurance, 21 September 2016, see https://www.fca.org.uk/publications/feedback-statements/fs16-5-call-inputs-big-data-retail-general-insurance

[11] Graham Ruddick, "Facebook Forces Admiral to Pull Plan to Price Car Insurance Based on Posts", Guardian, 2 November 2016, see https://www.theguardian.com/money/2016/nov/02/facebook-admiral-car-insurance-privacy-data; more detail on algorithms here: https://www.theguardian.com/technology/2016/nov/02/admiral-to-price-car-insurance-based-on-facebook-posts

[12] Deloitte, Insurance Disrupted: General Insurance in a Connected World, 2015, p.6.

[13] Accenture, The Voice of the Customer: Identifying Disruptive Opportunities in Insurance Distribution, 2017, p.4.

[14] "Drones Dispatched to Assess Flood Damage", Financial Times, 8 January 2016, see https://www.ft.com/content/0df6980c-b628-11e5-8358-9a82b43f6b2f.

About the authors

James Webb is Head of Product Marketing at Fadata, where he is responsible for market evaluation, value proposition management and the company's product-marketing strategy. With previous roles at Guy Carpenter, CoreLogic, SunGard and FIS, his background combines 20+ years' experience within re/insurance, risk analytics, and leading software product management and marketing with a focus on the insurance industry. james.webb@fadata.eu

Dave Smith is the Business Development Director for Charles Taylor InsureTech. His 30+ years working in the Life and Pensions insurance market includes 20 years spent working for a major UK life and pensions provider across all areas of the business. The last 12 years has been spent on the software vendor side supplying and delivering IT solutions to Life and Pension providers in UK, Belgium, South Africa, Australia, Russia and United States. dave.smith@ctplc.com

About Fadata

Fadata is a leading provider of software solutions for insurance companies worldwide. Its core process management platform, INSIS, helps insurers stay competitive by connecting faster and more effectively with their customers. Recognized as an advanced solution by analysts at Gartner and Celent, INSIS is used by insurers in over 30 countries across Europe, the CIS, Middle East, Africa and Latin America.

With headquarters in London and a major development and operations centre in Sofia, Fadata has offices in five countries and an extensive international distribution and partner network that includes EY, Charles Taylor InsureTech, EVRY, Sollers, Infosys and Oracle. In 2015, Fadata was acquired by The Riverside Company, a global private equity firm, and Charles Taylor plc., the London-based global provider of insurance services.
www.fadata.eu

About Charles Taylor InsureTech

Charles Taylor InsureTech was established to help insurance businesses drive change through the delivery of technology-enabled solutions. We don't have a one-size-fits-all approach or prescriptive methodology. We work consultatively with our clients to revitalise their operations, reinvent established processes and implement future-ready solutions that deliver measurable benefit and improve data-driven decision making. 100% insurance focused, we blend our experience as hands-on insurance practitioners with fresh thinking from the worlds of technology consulting, financial services and beyond.

Charles Taylor InsureTech is part of Charles Taylor plc, a leading international provider of professional services to the global insurance market. Charles Taylor has been providing services to its clients since 1884 and today employs over 1,800 staff in 71 offices spread across 29 countries in the UK, the Americas, Asia Pacific, Europe, Middle East and Africa. **www.ctplc.com/insuretech**

For more information

To discuss your business's needs and how we can help, please contact us at:

info@fadata.eu
+44 (0)20 3865 0037

insuretech@ctplc.com
+44 (0)20 7767 2700

Fadata
19 Hatfields, London SE1 8DJ
United Kingdom

fadata