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Digital Transformation: Balancing Opportunities and Challenges

Video Transcript

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Hi! My name is John Cusano. I'm the global industry lead for Accenture's Insurance practice. I'm often asked by clients how they should place their bets as they ponder how they can use digital technologies to deliver growth. In other words, as they're surrounded by opportunities for digital innovation, and confronted by competitors that have already seized these opportunities, how should they determine their pace of change – and their place in the new world of digital?

I'd like to use this video to share some of my views on this topic.

How have the early adopters of digital gained an advantage?

Digital is simply the use of information, business resources and technology in tightly connected ways to produce better outcomes. Insurers have been using digital for many years to improve their operations. What is new is the emergence of a divide between those who view it as just that – a way to steadily improve their existing activities and processes – and those who recognize its potential to do much more.

This second group, which we call the Digital Transformers, are having a disruptive impact on the industry, and they're forcing the Digital Followers to reconsider their approaches.

What is it that sets Digital Transformers apart?

We in Accenture make a distinction between "digitization" and "digitalization". We define digitization as the application of new data and technologies to existing business processes, with the aim of reducing costs or improving effectiveness. An example is the introduction of an online sales

channel. Digital Followers tend to favor digitization, which is a conservative, exploratory approach that is usually focused on discrete functions or processes. Digitalization, which is more typical of Digital Transformers, is quite different. It takes an outside-in or customer-centric view of the organization, and it reaches throughout the value chain. In fact, it often extends the value chain. It does improve efficiency, but its primary aim is to use innovative strategies, products, processes and experiences to find new opportunities for generating customer value and profitable revenue. This is a bold, often disruptive approach that tends to look beyond the confines of the traditional business model, customer experience and industry norms. So while Digital Followers prioritize the replacement of old technology without changing the way their business works, Digital Transformers actively seek innovation that gives customers something new and valuable, and that creates the potential for growth. It's hardly surprising that, in our recent Digital Innovation Survey, Transformers expect their digital initiatives to boost premium income by almost eight percent over the next three years, while Followers are hoping for only four percent.

Do you have an example this kind of innovation?

Berkshire Hathaway's AirCare travel insurance is an example of a product, in a mature segment of the market, that approaches consumers' needs in an entirely different way. Travelers can buy the product online or using the carrier's mobile app, up to an hour before their flight is due to take off. Berkshire Hathaway tracks all relevant flights, and if a customer is seriously delayed, it immediately makes a payout into their bank account,

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allowing them to at least buy themselves a bit of comfort and consolation in the overcrowded airport. And then a personal concierge service helps them rebook their flight, locate their lost luggage and so on. This illustrates how Digital Transformers don't simply look to enhance a familiar product. Instead they take an outside-in, or customer-centric approach to the problem, and come up with radically new solutions.

What does it take to become a Digital Transformer?

It certainly takes more than calls by the CEO for everyone to "be digital". It also takes more than increasing your investment in technology. Many people think it's developing a strategy for digital and aligning it with the business strategy. But in fact you don't need a digital strategy – you need a new type of business strategy: a digital business strategy. Digital transformation is a strategic choice that has implications for every stage of the value chain.

How can I get started?

The first thing you need to understand is that you're unlikely to develop and then roll out a detailed digital business strategy. Because they're moving into uncharted territory, most Digital Transformers have adopted an iterative approach. They start with a clear statement of the outcomes they want, and these are closely tied to their customers' perceptions of value. Then they examine the obstacles that stand in the way of these outcomes: all the things that need to be different to achieve them. They define the combination of digital and traditional technologies, the operations, the new capabilities, and the information they need to overcome the obstacles. And then they get started, which is the most important step of all – because much of their digital advantage comes from testing and learning, engaging customers, and steadily building their digital capabilities. So in other words: start small, scale fast,

stumble and recover, and learn as you go.

What are the challenges I'm likely to encounter?

I won't pretend that transformation is easy. One of the biggest challenges – and this is confirmed by our research – is overcoming the constraints of your legacy. Forty-two percent of the insurance executives we surveyed in our Digital Innovation Survey ranked it among their top three obstacles, well ahead of skills shortages at 30 percent. If you focus all your attention on modernizing your platforms and capabilities, you will improve your efficiency and agility. That's important, but it won't make you a digital business. So you need to focus simultaneously on your legacy and on your customers, and how you plan to generate value for them well into the future. Achieving that balance, and using the savings from the one to finance the other, and setting a pace that's quick enough to gain an advantage but not so fast that you over-extend yourself ... these are some of the tougher challenges you will need to overcome.

Where can I find out more?

You can find the results of our Digital Innovation Survey on our website, at Accenture.com/insurance (caption: www.accenture.com/insurance). Our survey interviewed about 140 C-suite insurance executives who are responsible for their companies' digital agendas. The report presents their attitudes, their priorities and the progress they've made. It also includes our recommendations for developing and executing a digital business strategy that meets carriers' short-term needs while providing a foundation for long-term transformation. Over the next few weeks, in my blog, I'll be discussing some of the more important and far-reaching implications of the survey – I hope you'll be able to follow my posts. Thank you!