



Where's the payback on digital innovation in insurance?

Prioritizing the right
innovation investments

In the days before data and analytics made marketing more measurable, retail pioneer John Wanamaker famously wondered which half of his advertising budget was wasted. Likewise, many insurance executives ask themselves which of their digital investments are delivering a return and which are not. Our analysis of leading insurers around the world found a high correlation between those who made—and communicated—investments in distribution and customer experience innovations and those with strong performance in top line, net income and market valuation.

Insurance companies worldwide are placing massive bets on digital innovation as they strive to contain operating costs, improve customer engagement and reinvent their businesses for an age of relentless disruption. Of the 539 insurance executives from around the world surveyed as part of [Accenture's Technology Vision for Insurance 2020](#), 82 percent reported that their organizations were planning to invest at least 1 percent of total company revenue in new digital technologies this year (Fig. 1).

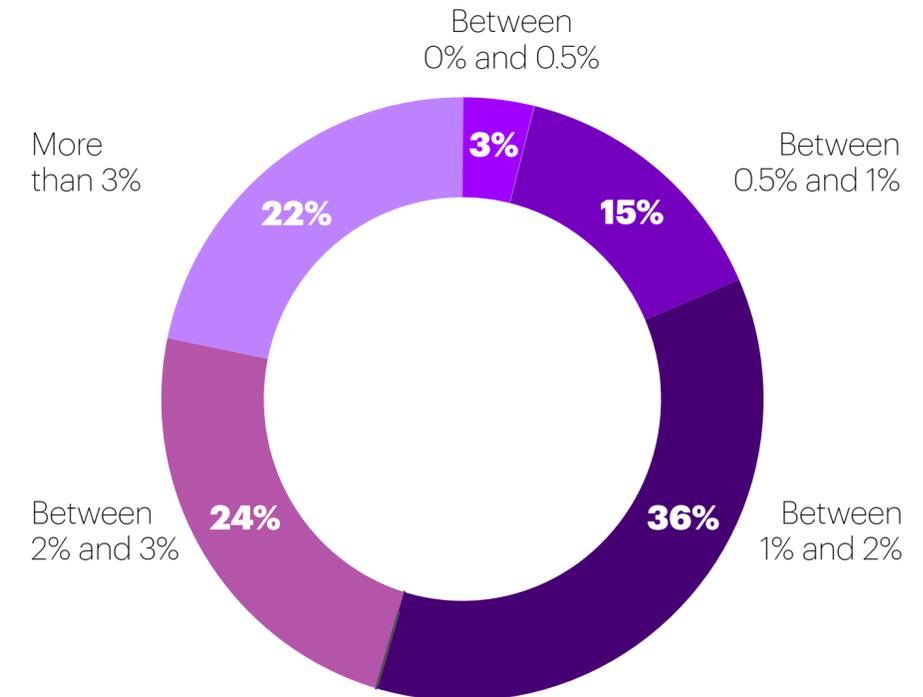
The imperative for digital innovation has taken on more urgency in the wake of the coronavirus pandemic. Fewer in-person channels mean insurers need to step up their innovation investments to meet consumers' rising expectations of digital experiences. Additionally, the likelihood of a prolonged economic downturn means insurers must leverage digital tools to reduce costs and improve efficiencies.

Our “What’s the Payback on Digital Innovation in Insurance?” report analyzes where the return on investment lies in digital innovation to help insurers prioritize opportunities for the new business landscape.

Our conclusion is that market conditions and optimal innovation strategies differ across regions of the world, but distribution nearly always emerges as a smart wager.

Figure 1: Insurers earmark significant spending for digital programs and projects

What Percentage of total company revenue would you estimate your organizations is investing this year in new digital technologies (i.e. aimed at changing the way you run the business)?

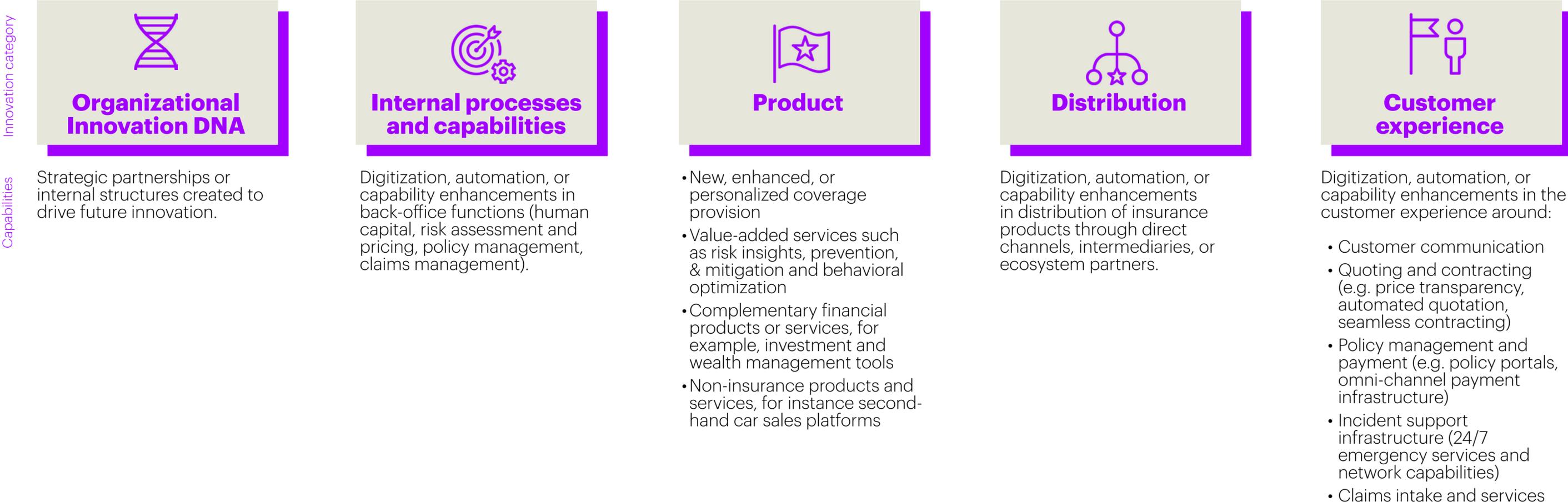


Methodology

Underlying this research is Accenture’s proprietary digital innovation database, which captures public innovation announcements over the last five years from English language sources from the top 30 insurance players by total premium volume across all major markets. We grouped innovations into five categories (Fig. 2), including organizational innovation DNA, internal processes and capabilities, product, distribution and customer experience.

To understand where the insurance leaders are putting their money, we made a simple count of each innovation announcement and categorized it. The financial performance of markets, in terms of premium, net income and market cap growth, was subsequently compared to the innovation characteristics of the insurer, allowing us to explore the correlation between digital innovation and payoff.

Figure 2: Innovation categories



While local market context matters, customer experience and distribution innovation deliver outsized returns

Insurance organizations know that digital innovation matters more than ever, especially at a time when competition is rising, customers are seeking better digital experiences, and new technologies and economic uncertainty are upending traditional business models. Indeed, 82 percent of insurance executives surveyed in the Technology Vision 2020 said their organization has a transformation vision and strategy that spans the enterprise or is developing one.

This comes at a time when the once-staid insurance sector is increasingly vulnerable to disruption, as non-traditional players and digital startups come to market with digital customer experiences that are simpler, friendlier and more convenient than those on offer from the incumbents. In many markets, insurers face the challenge of increasing commoditization and a race to the bottom, as third-party aggregators and direct insurers make it easier than ever for customers to get quotes and buy coverage online.

Our analysis of insurers' innovations and financial metrics indicates that as variable as global market conditions are, customer-facing innovation is critical. After several years of cost-optimization in the back-office, many high-performing insurers are leaning towards customer-facing innovations rather than falling back on cost reduction.



While internal digital capabilities remain critical to driving structural cost reduction in a recession, the longer-term opportunity to recreate customer experience and improve the insurer’s relevance to the customer is more significant. Shifting customers to digital channels is at once an opportunity to drive down costs, extend the distribution reach and boost customer satisfaction and engagement.

The impact of customer experience innovation is most pronounced in North America, a highly consolidated market where the top 10 personal line insurers hold market share of 70 percent. To set themselves apart, carriers need to win customer trust and consistently deliver quality customer experience, in addition to extending their distribution tendrils into new markets and channels.

In the growth markets of Asia, Latin America and Africa, meanwhile, the winners correlate closely with elevated levels of product and customer experience innovation. Insurers in many of these countries have leapfrogged more advanced markets in the rollout of digital distribution innovations—including mobile channels—enabling them to penetrate unserved and underserved segments.

Figure 3: Key performance indicators for innovation leaders versus the rest of the loser

Europe

	Relative Share of Innovations					Relative Performance		
	Foundations for Growth	Internal Processes and Capabilities	Product	Distribution	Customer Experience	Premiums & Annuity Revenue (5 Year CAGR)	Market Cap (5 Year CAGR)	Average Net Income Ratio (5 Year Average)
Leaders	3.9%	12.4%	15.8%	11.7%	24.9%	2.8%	2.9%	7.4%
Trailers	4.7%	10.9%	16.0%	8.8%	27.1%	-1.4%	-5.0%	2.9%
Difference	-0.8%	1.5%	-0.2%	2.8%	-2.2%	4.2%	7.9%	4.5%

North America

	Relative Share of Innovations					Relative Performance		
	Foundations for Growth	Internal Processes and Capabilities	Product	Distribution	Customer Experience	Premiums & Annuity Revenue (5 Year CAGR)	Market Cap (5 Year CAGR)	Average Net Income Ratio (5 Year Average)
Leaders	7.0%	6.2%	14.0%	17.0%	27.5%	12.7%	12.6%	17.4%
Trailers	8.1%	9.9%	19.9%	12.1%	19.0%	-0.3%	-3.5%	0.9%
Difference	-1.1%	-3.7%	-5.9%	4.9%	8.5%	13.0%	16.1%	16.5%

Growth Markets

	Relative Share of Innovations					Relative Performance		
	Foundations for Growth	Internal Processes and Capabilities	Product	Distribution	Customer Experience	Premiums & Annuity Revenue (5 Year CAGR)	Market Cap (5 Year CAGR)	Average Net Income Ratio (5 Year Average)
Leaders	3.9%	7.8%	22.3%	14.6%	30.1%	18.2%	29.0%	9.4%
Trailers	6.6%	13.2%	15.0%	14.4%	26.9%	4.4%	5.1%	3.4%
Difference	-2.7%	-5.4%	7.4%	0.2%	3.2%	13.8%	23.9%	6.0%



With some of these markets maturing and customer needs becoming more diverse and complex, focus of insurers is increasingly turning towards product differentiation. Ongoing deregulation and privatization across many of these territories also allows insurers to progress further in product feature and pricing innovation.

In Europe, there appears to be continued advantage to innovating in distribution, though the correlation with higher performance is weaker than in other markets. Customer experience innovation, however, is not moving the needle for European insurance companies. Europe is the only market in which investments in internal efficiencies show a slight positive correlation with higher performance.

One factor that may explain why it is harder for European insurers to show return on their distribution and customer experience investments is the fragmented distribution and tax system across countries. It may be easier for insurers in North America and Asia to scale and cross-fertilize distribution innovations across territories. An analysis of our proprietary insurtech innovation and deal flow database confirms that the sales and distribution category is attracting the highest levels of insurtech and venture capital investment from seed funding to late-stage investment. At 49 percent of all transactions, it is the area in which incumbents, their emerging competitors and partners see the highest potential returns.

Insurtech innovation echoes the importance of distribution

Investment into distribution-focused insurtechs, such as India's PolicyBazaar and Boston-based CoverHound®, grew at a compounded annual rate of 54 percent for the five years to 2019, compared to 50 percent growth in total investment into insurtechs over the same period. This class of insurtechs today receives about 38 percent of total insurtech funding, up from 25 percent in 2010.

Messaging matters

Digital Innovation can lead to positive financial outcomes. But it's also important not to underestimate the value of a strong innovation story in shaping the perceptions of analysts and investors. A well-communicated innovation strategy and roadmap can have a strong observed effect on an insurance company's market capitalization.

Tapping into a tracker that complements our innovation database, we found a strong correlation between innovation capability announcements and stock price increases. Among the top 10 innovators in our sample, we found their stock prices tended to increase within 24 hours of the public announcement of an innovation capability or project. On average, stock prices moved 4.1 percent up after such an announcement.

At Ping An, for example, we found that the top 20 most impactful announcements shifted its stock price up by an average of 3.2 percent. Among these announcements, digital innovation leads the way with nine. For South Africa-based life insurer Discovery, the top 20 most impactful announcements (with an average stock price impact of +3.1 percent) showed a similar trend, with 60 percent of the announcements focused on digital innovation.

Unlocking the payback from digital

These examples demonstrate how insurance companies that invest in innovation and communicate about their innovations are often rewarded with an increase in stock price. Facing the twin threats of ongoing digital disruption and a recession caused by the pandemic, insurers need to know that they are getting a worthwhile return on their investments in innovation and digital technology. Our analysis shows that insurers that are proactive about communicating their innovations to the market typically see a rise in stock price.

The research indicates that while conditions and opportunities vary by market, customer experience and distribution innovations are usually wise investments. In addition to the benefits of extending market reach and enhancing customer satisfaction and engagement, streamlining customer experience and distribution can also be a structural way of reducing the insurer's costs.

Authors



Kenneth Saldanha
Global Lead - Insurance,
Accenture

[Blog](#) | [LinkedIn](#)



Jean-François Gasc
Managing Director - Insurance - Strategy
Consulting,
Accenture

[Blog](#) | [LinkedIn](#)

Contributors

Andre Schlieker
Global Insurance Research Lead,
Accenture Research

andre.schlieker@accenture.com

Thomas Mulder
North America Insurance Research Lead,
Accenture Research

Thomas.a.mulder@accenture.com

About Accenture

Accenture is a leading global professional services company, providing a broad range of services in strategy and consulting, interactive, technology and operations, with digital capabilities across all of these services. We combine unmatched experience and specialized capabilities across more than 40 industries — powered by the world’s largest network of Advanced Technology and Intelligent Operations centers. With 506,000 people serving clients in more than 120 countries, Accenture brings continuous innovation to help clients improve their performance and create lasting value across their enterprises. **Visit us at** www.accenture.com.

About the research

Accenture Research shapes trends and creates data-driven insights about the most pressing issues global organizations face. Combining the power of innovative research techniques with a deep understanding of our clients’ industries, our team of 300 researchers and analysts spans 20 countries and publishes hundreds of report articles and points of view every year. Our thought-provoking research—supported by proprietary data and partnerships with leading organizations such as MIT and HBS—guides our innovations and allows us to transform theories and fresh ideas into real-world solutions for our clients. **Visit us at** www.accenture.com/research

This document makes descriptive reference to trademarks that may be owned by others. The use of such trademarks herein is not an assertion of ownership of such trademarks by Accenture and is not intended to represent or imply the existence of an association between Accenture and the lawful owners of such trademarks.

The views and opinions expressed in this document are meant to stimulate thought and discussion. As each business has unique requirements and objectives, these ideas should not be viewed as professional advice with respect to the business.