



GET COMFORTABLE OUTSIDE YOUR COMFORT ZONE

INSURANCE | Digital Transformation Remaking an Industry

Perhaps more than any other financial service, insurance emphasizes personal relationships. Human emotions like trust and compassion often play a central role, both in winning new customers and keeping existing ones. One of the biggest challenges for insurers today is leveraging technology to build and improve their business while maintaining that essential personal touch.

To see how insurance executives are striking this balance, Accenture and Oxford Economics surveyed 90 technology executives in the financial services (FS) sector, including a statistically significant sample from the insurance segment. Our survey results show nearly all insurance executives envision a digitally transformed FS industry five years from now. As a result, 90% of insurers have a coherent, long-term plan for technology innovation that reaches across their entire company.

“Digital technologies have changed the way that you can connect and relate to customers,” says Greg Baxter, Chief Digital Officer of MetLife, Inc. “We need a deep and empathetic understanding of our customers, and that needs to be enabled by world-class capabilities.” Among the survey’s other findings:

- **90%** of insurance respondents say that in five years, consumers will buy most of their insurance through online and mobile apps.
- **80%** think more than half of customer interactions will be substantially handled by virtual assistants.
- **83%** expect that blockchain will be the predominant ledger system for business-to-business (B2B) financial transactions within five years.

The survey results show that insurers are harnessing technology not only to improve efficiency but also to enhance customer relationships and boost growth. For example, 40% of insurance respondents expect their technology investments to improve customer loyalty, and nearly that many—37%—expect them to create new revenue streams. In addition, a third expect their technology investments to help reduce the cost of customer acquisition, and another third expect it to increase their market share.

It is clear that insurance executives see digital tools transforming their business at the front end, the back end, and everything in between. More than six in 10 report that technology is already having a significant impact on their claims and underwriting processes. When survey respondents are asked to envision their business in three years, those response rates rise markedly, to nearly eight in 10. And more than two-thirds expect technology to have a significant or very significant impact on risk management, distribution, and finance.

But insurers say integrating IT with long-term corporate strategy and growth plans is challenging. Many worry that the technology function works in a silo. Their fears extend to the FS industry as a whole: Half of insurance executives responding to the survey think the industry fails to make the most of technology because financial professionals lack understanding of what digital tools can do for their business.

Nevertheless, insurers are making significant investments in both foundational and emerging technologies; have more planned for the future; and are already seeing results. “The operational efficiencies you can capture by applying technology to the middle and back office are a huge, real-time, measurable benefit,” says Mr. Baxter at MetLife.

> **60%**

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Survey demographics and methodology

In early 2018, Oxford Economics and Accenture surveyed 90 executives in the financial services industry responsible for technology purchase decisions at their organization. The survey sample included 30 respondents from insurers; 30 respondents from retail banking; and 30 respondents from capital markets companies. Unless otherwise noted, all survey data in this paper reflect responses from insurance respondents.

Respondent organizations were roughly evenly distributed across North America, Asia Pacific, and Europe. Respondent titles were evenly distributed among CTOs, CIOs, and EVP/SVP/VPs of IT. In terms of revenues, 37% of insurance respondents reported \$10 billion–\$25 billion last year; the rest reported \$25.1 billion–\$100 billion.

THE GROWTH GOAL

Happy Employees, Loyal Customers

There's no question that technology has helped insurers save money. MetLife, for example, "launched in our P&C business an end-to-end digital product that has significantly reduced our cost to market at scale," says Mr. Baxter. However, our survey results show insurers' goals for digital innovation go far beyond cost-cutting.

Asked about how they expect their technology investments to improve their competitiveness, 43% of insurance respondents say improving employee retention is among their top three goals—perhaps not surprising in an industry segment where high turnover is a perennial and expensive problem. About the same proportion—40%—expect their technology investments to improve customer loyalty. By comparison, only half as many respondents cited reducing operational costs as one of the top three ways they think technology will boost their competitiveness. And only 10% say they're investing primarily to compete with insurtech startups.

Indeed, insurers see the biggest payoffs from digital transformation shifting over the next few years from efficiency to customer-facing applications (see Figure 1).

For example, whereas 63% of respondents say cloud for operational efficiency is making the biggest impact on their company today, that percentage plummets to just 30% when they think about their business in three years. Then, customer-facing blockchain (53%) and artificial intelligence-based technologies to improve client-facing processes (47%) get the most votes for high-impact digital tools.

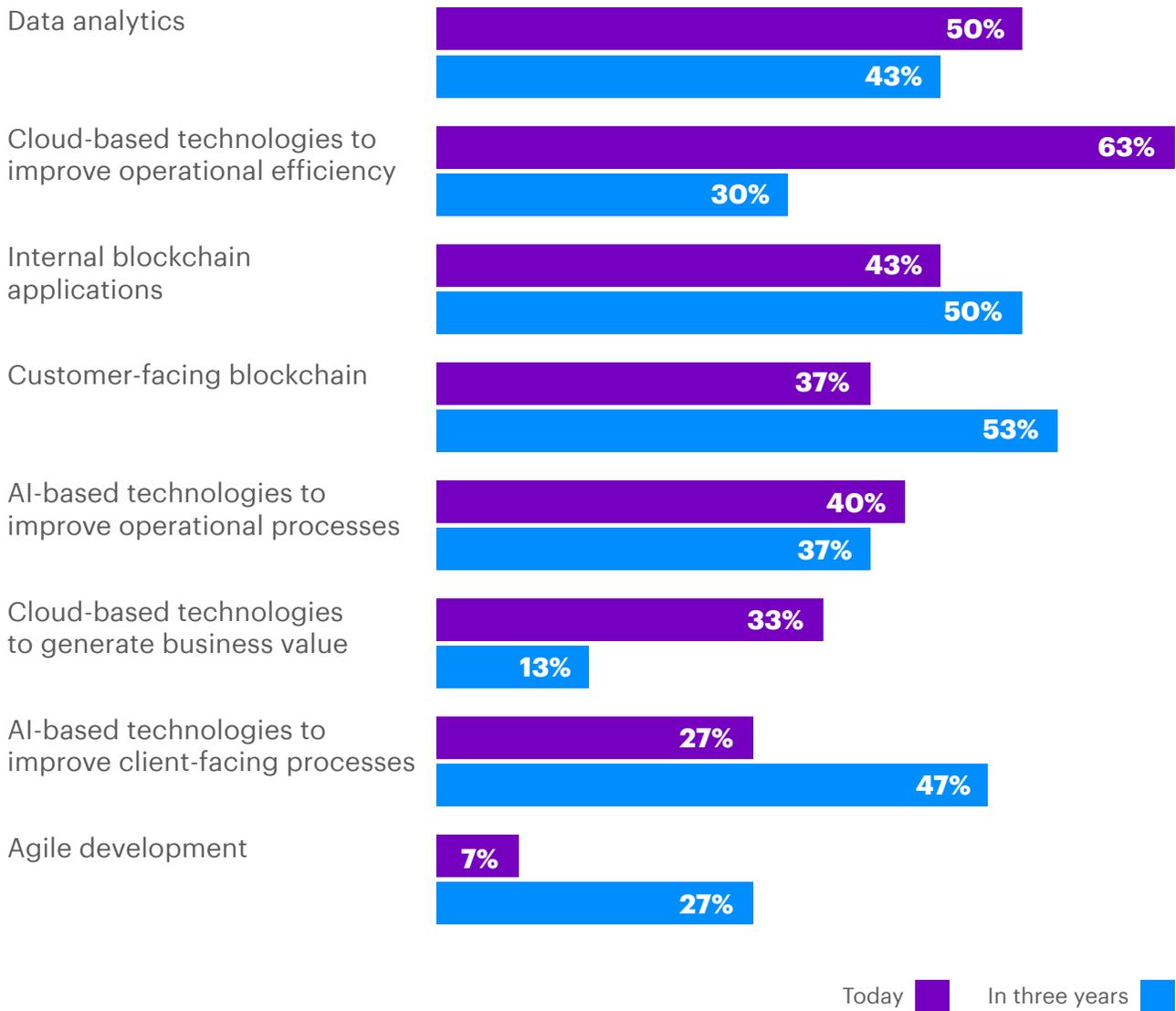
Insurers are investing significantly in these technologies, in terms of both money and people:

- **87%** have a dedicated in-house team for digital innovation
- **87%** take a systematic approach to evaluating emerging technology
- **83%** apply consistent metrics to monitor the value of their technology investments

The high response rates show technology's central role in long-term strategy. We are seeing insurers back up their technology investments with key performance indicators (KPIs), talent, and systematic assessments to deliver the greatest value.

Figure 1: Cloud today, blockchain and artificial intelligence (AI) tomorrow

Please select which technologies are having the biggest impact on your company now and in three years. Insurance respondents.



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Greg Baxter, Chief Digital Officer, MetLife, Inc.

ARTIFICIAL INTELLIGENCE AND THE FUTURE OF INSURANCE

As a relationship business, the insurance sector has a great deal to gain by figuring out how artificial intelligence and machine learning can enhance customer service and make customer interactions more productive. At MetLife, for instance, AI helps call-center agents in customer conversations. The AI technology recognizes cues in the customer's voice (tone, pacing, silences) and gives the agent suggestions for, say, adjusting the script or calling back at a better time.

MetLife is also using AI in underwriting. “We’re using more intelligent ways of accepting data sources to determine risk categories,” Mr. Baxter says. “That massively increases the amount of straight-through automated underwriting that we can do without needing to go through an underwriting adjudicator.”

Our survey results confirm that insurers see AI playing a major and evolving role in the future of their business (see Figure 2). Today, 60% of insurers are investing in AI to improve operational processes, but in three years—when the technology will have matured considerably—half will be investing in AI to improve client-facing processes.

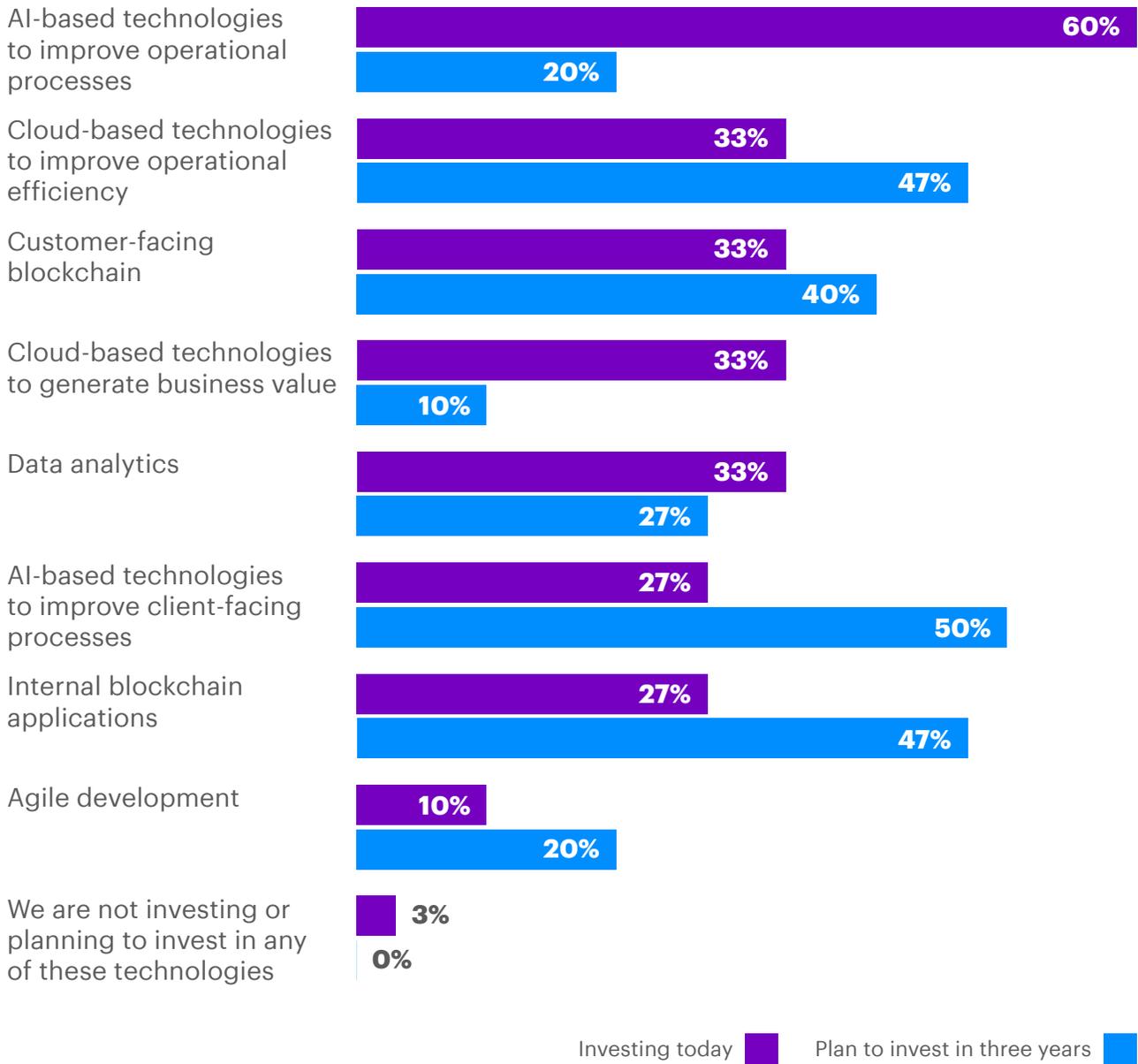
As for blockchain, another next-generation technology, more insurers see themselves investing significantly in customer-facing blockchain and internal blockchain applications in three years than today. Nearly half of respondents (47%) say they will invest in internal blockchain in the near future, up from 27% today.

That’s not to say insurers aren’t making the most of core technologies like data analytics. Our survey shows a third of respondents are already investing significantly in analytics. And they are reaping the rewards. When asked which technologies are having the biggest impact on their company and industry today, half name data analytics.

Cloud apps are even more popular. But they, too, are seen as being overtaken, in terms of impact and projected investments, by newer, customer-facing tools in three years. Today, two-thirds of insurance executives say cloud-based technologies to improve operational efficiency are having the biggest impact on their industry, and 63% say the same about cloud at their own company. But looking ahead three years, those numbers plunge to 23% and 30%.

Figure 2: An evolving role for artificial intelligence

Please indicate which technologies you are investing in or plan to invest in significantly. Insurance respondents.



OVERCOMING THE HURDLES

What roadblocks impede insurers' journey to digital transformation? More than their peers in retail banking or capital markets, insurance executives worry that IT lives behind a wall where its expertise is squandered (see Figure 3).

For insurers, an equally serious obstacle is lack of systems integration or compatibility: 47% of them say lack of collaboration with the IT function prevents them from getting value from their technology investments, and the same proportion cite lack of systems integration or incompatibility as a hurdle.

Fears about headcount reduction represent another obstacle. Nearly all insurers (90%) expect significant headcount shrinkage in their industry segment over the next five years due to digital innovation. And half think concerns about headcount reduction stand in the way of digital transformation in the FS industry overall.

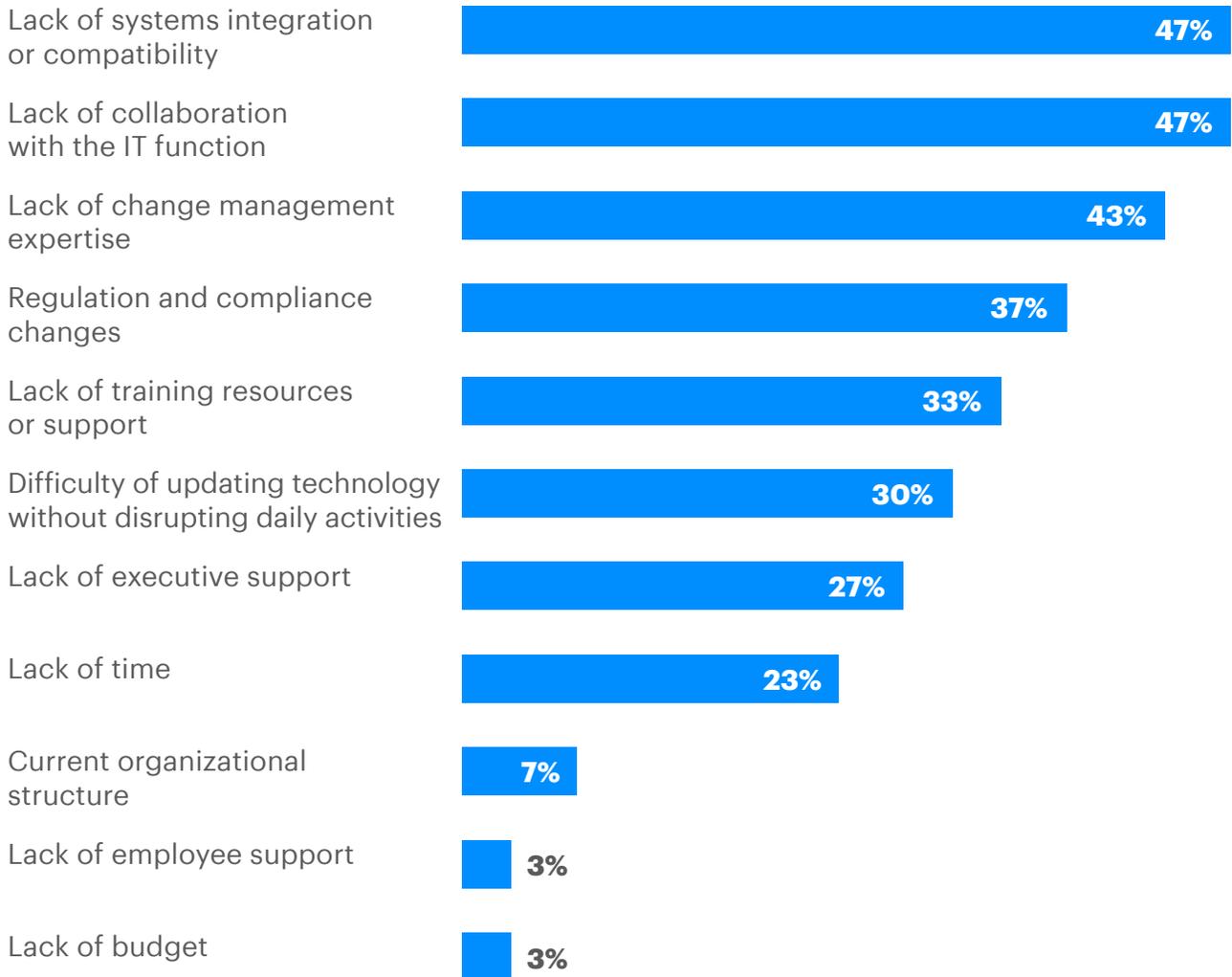
Yet four in 10 insurance respondents also expect their technology investments to improve employee retention. This suggests that while digital transformation in the industry may reduce headcount, it can also help improve employee satisfaction and reduce turnover, which has historically tended to be high.

Despite the obstacles, insurers are clear-eyed about technology's importance to their future competitiveness. Mr. Baxter at MetLife says that while digital transformation has gotten off to a slower start in insurance than in banking, "customers are every bit as anxious to get simpler and more convenient solutions from insurance as they are from any other provider. So we see the same sort of disruption happening."



Figure 3: Struggling with systems incompatibility and an IT silo

At your company, what are the biggest obstacles to achieving desired results from technology investments? Insurance respondents, top-three ranked responses.



CONCLUSION AND ACTION POINTS

What Insurers Can Do Today

Insurance may have come to the fintech revolution a bit late, but the sector is catching up fast. In part thanks to disruption from new competitors, executives recognize the value of strategic investments in both foundational technologies like cloud and next-generation tools like blockchain and AI. And over the next couple of years, they expect their focus to shift increasingly from driving efficiency to improving customer service and supporting long-term growth plans.

To ensure that their digital transformation efforts are effective, many insurers have already created dedicated in-house teams for technology innovation and measure the value of their investments with consistent KPIs. Yet our survey suggests they should do more to integrate technology with strategy, bringing IT into closer harmony with all the lines of business. Many insurers complain that systems incompatibility stands in the way of digital innovation, so finding technology platforms that allow the different parts of their business to work together efficiently is key.

In the digital era—in which personalization, speed to market, and security are key—pivoting to new technologies and reference architectures including cloud, intelligent automation, distributed ledger technology, and enterprise agility is a business imperative. Yet transitioning completely from existing mainframes and other legacy technology will often be impossible, as these are typically deeply embedded in an organization. This is why legacy enhancement and modernization are so critical on the journey to competitive advantage.

In addition, we see data driving the digital insurance business, and insurers should make sure they have data they can trust. They should focus on data veracity, data architecture, and data governance to underpin their digital transformation.

To strike the balance between adopting new technologies and maintaining the personal relationships that are critical to a successful insurance business, we recommend the following action points:

- Before undertaking any major investments in new technologies or making any major changes, insurance companies should take a close look at their workforce. Do they have the right talent base to seize full value from the technology portfolio? Can they attract and retain people who will use new technologies to gain a competitive edge?
- Most operating models common in the insurance industry won't be effective in the digital age. Insurers should assess their business model, identifying where changes are called for to respond to the evolving competitive landscape.
- Insurers should conduct a thorough review of their applications to help determine which alliances, partners, and vendors should be integrated into their ecosystem, actively identifying savings opportunities and operational efficiencies.

- Insurance companies are strongly advised to make the seamless integration of old and new systems a priority as they migrate to more innovative and powerful technologies.
- Insurers should leverage data from the Internet of Things (IoT) and other sources to support their intelligent automation journey.

These actions can help insurance companies capture the benefits and opportunities of new intelligent platforms and technologies. Insurance companies should also continue to collaborate with one another and to build out their ecosystems of alliances, partners, and vendors as they move forward on their digital journey.

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