

Deconstructing digital transformation strategies in insurance

Answering the why, how, and what



Delivering the promise of digital

Successful strategies to operationalize digital transformation

The digital transformation agenda for insurance CXOs had started pre-pandemic, but the events of 2020 forced changes in ways of working and serving customers that highlighted the need to accelerate the infusion of digital technologies into insurance operations. As we start to emerge from the most disruptive stages of the pandemic; it's clear that these new ways of working are here to stay.

These changes are set against a backdrop of continuing low return on investments and a hyper-competitive market. The pressure is on insurers to keep consumers engaged, improve experience at every interaction, and do all of this while reducing operational expenses. This calls for a conscious and fully mapped out digital investment strategy that crystalizes department-wide benefits and ROI.

So how can insurers operationalize these strategies and turn the promise of transformation into reality? To uncover best practices across the industry, Genpact turned to Everest Group to interview leading insurance enterprises. Topics covered:

- The key drivers for enterprise transformation strategies and the levels of digital maturity across industry segments
- How they are operationalizing these efforts in terms of spearheading, prioritizing, funding, and executing initiatives
- The new target operating models being explored, and the investments needed to reach them

The research reveals a shift from a federated approach towards a more centralized strategy to ensure successful digital investments. It also highlights the evolution from a do-it-yourself mindset to more engaged, ecosystem-driven, holistic programs with service providers that specialize in process expertise, digital maturity, risk, and change management.

Genpact works with insurers across the globe to make digital transformation a reality and help them become instinctive enterprises - a next-generation business that connects, predicts, and adapts at speed, with AI embedded as its neural wiring.

Powered by data and AI, insurers have the opportunity to take a more proactive role in protecting lives, livelihoods, and businesses. They will be prepared for new sources of competition, demands for greater transparency, new economic models, and new talent needs.

I hope the insights in this report help you on this journey.

Yasir Andrabi
Insurance strategy and solutions leader,
Genpact

Deconstructing Digital Transformation Strategies in Insurance

Answering the Why, How, and What



genpact

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Introduction

The insurance industry is embracing transformation to keep pace with the ongoing digital disruption across global markets and economies. A combination of factors – including changing consumer demography, new demand patterns, new market entrants, profitability concerns, and operational resilience – are urging this dramatic shift.

Additionally, in making the shift, enterprises are moving away from a siloed approach, as they increasingly realize the short-lived gains delivered by pointed technological interventions. Disjointed transformation efforts carried out with limited senior management buy-in often deliver underwhelming gains due to disproportionate resource consumption and derailed project timelines. The underlying theme across these failed attempts is a disjointed vision that does not support the firm's overall growth strategy. As digital transformation becomes a decisive strategic imperative, insurance firms are modifying their federated approach to a centralized strategy to ensure successful investments.

As part of this study, we interviewed leading insurance enterprises across key industry segments – Life and Pensions (L&P), Property and Casualty (P&C), reinsurers, and brokers – to examine:

- **Why** insurance enterprises are undertaking digital transformation initiatives, the key drivers for their journeys, and current digital maturity across various industry segments
- **How** organizations are operationalizing these efforts in terms of spearheading, prioritizing, funding, and executing the initiatives
- **What** the resulting target operating models are and the key investments required to attain the end state

Why – the current baseline for transformation

Everest Group take

When asked why they wanted to transform, leading insurance enterprises' most consistent answer was to ensure superior customer experience. However, a large part of the industry still has a long way to go before it can claim to have future-ready and resilient operating and business models.

Key objectives driving insurance enterprises' transformation efforts






Multiple market dynamics are driving change in the industry. These include rapidly evolving consumer demand, increasing margin pressures, declining interest rates, rising competition from new entrants, and, most recently, COVID-19-induced disruptions.

At the same time, different industry segments have different transformation objectives, depending on their markets and business models. For example, while customer experience is important for all, it has been observed to be more critical for insurers than reinsurers and brokers due to the differences in their business models – B2B versus B2C – and competitiveness in the respective segments. The exhibit below details what stakeholders from different industry segments regard as their most common transformation objectives.

EXHIBIT 1

Transformation objectives for different insurance segments

Source: Everest Group (2021)

How different insurance segments respond to transformation objectives				
Objective	 P&C insurance	 L&P insurance	 Reinsurance	 Brokers
Establish customer loyalty 	<ul style="list-style-type: none"> • Increase customer retention at renewals • Enhance experience at customer touchpoints – especially underwriting and claims • Enhance engagement with broker partners for commercial lines 	<ul style="list-style-type: none"> • Improve customer retention by controlling surrenders • Enhance customer engagement and satisfaction levels – adopt a Vitality-like model • Enable self-service for policy administration 	<ul style="list-style-type: none"> • Enable data-driven decisions for better risk management for insurance clients • Build lucrative propositions to collaborate with insurers and expand existing wallet share 	<ul style="list-style-type: none"> • Not an active agenda, possibly due to few players controlling a majority market share • However, now there is an emerging focus on customer experience


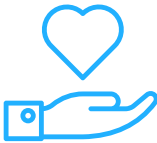





Significance of objective Low High

EXHIBIT 1 (continued)

Transformation objectives for different insurance segments

Source: Everest Group (2021)

Significance of objective Low High

How different insurance segments respond to transformation objectives				
Objective	 P&C Insurance	 L&P Insurance	 Reinsurance	 Brokers
Create differentiation 	<ul style="list-style-type: none"> Build digital competencies to compete against new entrants, especially in personal lines Create value-additive and intuitive product offerings, especially in personal lines Institute data-driven decision-making 	<ul style="list-style-type: none"> Traditionally did not consider differentiation as important, given complex products. Now realizing the need to differentiate Establishing more digital direct-to-consumer distribution, and expanding the young customer segment 	<ul style="list-style-type: none"> Not an active agenda, possibly due to few players controlling a majority market share 	<ul style="list-style-type: none"> While not an active agenda traditionally, now facing significant competition from new entrants Realizing the need to differentiate through portfolio expansion and streamlined services
Capitalize on growth opportunities 	<ul style="list-style-type: none"> Identify and unlock opportunities beyond saturated pockets in developed markets Infuse more digital and data-led capabilities to cater to demand in emerging growth segments, such as usage-based, microinsurance, and complex emerging risks 	<ul style="list-style-type: none"> Improve the ability to invest in new opportunities by eliminating underlying legacy liabilities Reduce exposure to market volatility in product portfolios 	<ul style="list-style-type: none"> Increase the leverage of more recent data to create robust policies and improve underwriting to tackle emerging risks such as cyber threats and climate change 	<ul style="list-style-type: none"> Provide more value-add services to customers Expand in emerging risks Leverage acquisitions for inorganic portfolio expansion and to increase presence on digital channels
Ensure profitability 	<ul style="list-style-type: none"> Optimize claims expense ratios, e.g., through fraud prevention Strengthen the underwriting discipline, especially now in commercial lines Facilitate digital workforce enablement to contain expense increase with revenue growth 	<ul style="list-style-type: none"> Modernize legacy IT and operations to reduce operational expenses and other related inefficiencies Streamline processes and leverage automation to the best extent Shift from paper-based to digital documentation Divest legacy books 	<ul style="list-style-type: none"> Be better prepared for large claims, which now have reducing predictability Increase the underwriting discipline Ensure digital augmentation to supplement complex, data-intensive, and judgment-based processes for boosting efficiencies 	<ul style="list-style-type: none"> Face squeezed margins in traditional services, leading to high M&As in the industry Create synergies from acquisitions Simplify complex IT infrastructure due to multiple acquisitions Modernize manual, paper-based operations that are intrinsically inefficient

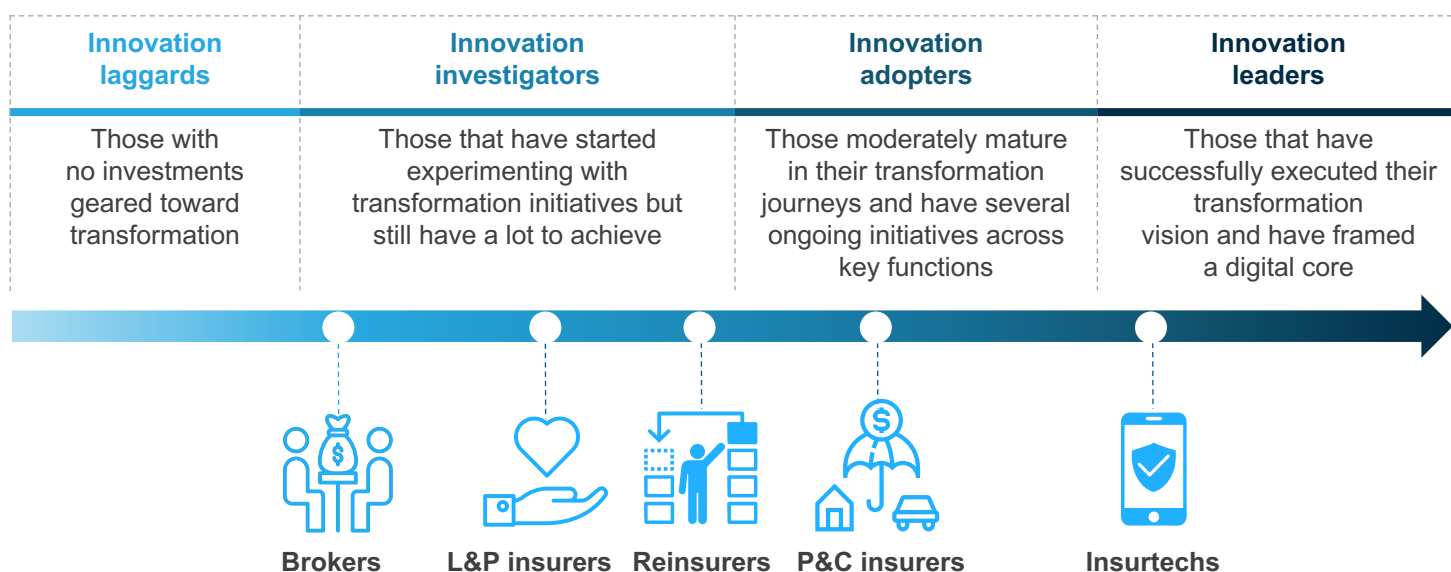
Current transformation maturity and impact of digital-led competitors

Although insurance enterprises have realized the need to transform, there is a long journey ahead for most. Only a handful have created scalable impact through their digital investments. Most are in a pilot or testing phase and are yet to identify all the relevant improvement opportunities. These clear gaps in the relative maturity of transformation journeys are detailed in the exhibit below.

EXHIBIT 2

Innovation maturity across insurance segments

Source: Everest Group (2021)



- **Innovation leaders:** Typically, insurtechs fall in this category, as their core differentiation is their ability to digitally disrupt the traditional methods of doing business
- **Innovation adopters:** P&C carriers, with relatively higher investment maturity, are categorized as digital adopters. Most leading carriers are investing in digital technologies such as automation, AI, and analytics, especially for personal and small commercial lines
- **Innovation investigators:** Leading reinsurers heavily leverage data and AI to improve risk management and are actively involved in the insurtechs ecosystem through investments or partnerships. L&P carriers, though considered legacy-driven, are now showing modest signs of progress, with automation and cloud ranking high on their investment agendas. Brokers lag in this category, though they have started to realize the importance of streamlining customer services, and some have initiated necessary investments in this regard
- **Innovation laggards:** Given that most leading players have invested in transformation, albeit to different degrees, none of the market segments fall in this category

* This exhibit corresponds more to market leaders in these segments rather than the entire industry. An overall industry depiction may have deviations from the segments depicted here.

Influence of digital-led competitors on incumbents' transformation journeys

Digital-savvy organizations, such as big techs and insurtechs, are disrupting the industry by making insurance services more affordable, accessible, and personalized, thereby compelling traditional carriers to accelerate their transformation strategies. Most incumbents believe that the impact of these competitors lies not in the ability to disrupt their top line, but in significantly changing how customers perceive insurance, thereby creating the urgent need to augment their own customer engagement models.

- **Incumbents' approach to the insurtech ecosystem**

Most insurance enterprises are now finding innovative co-creation or joint go-to-market opportunities in the insurtech ecosystem, rather than considering insurtechs a competitive threat. To see positive results from these relationships, insurers are enabling autonomous operations for the acquired start-ups and ensuring non-disruptive integration through digital sandboxes. Many leading brokers, TPAs, and reinsurers also have dedicated innovation funds to promote start-ups whose ideas align well with their own business models.

- **Incumbents' approach to the big-tech entry threat**

Big technology giants, having made a significant impact on the broader banking and financial services market, are scouting for opportunities in insurance. For instance, Amazon, Google, and Apple have partnered with John Hancock's Vitality to provide wearables for its life insurance customers. Amazon and Facebook are leveraging their platforms to distribute P&C insurance products. The big techs could disrupt the insurance marketplace by building a customer-centric, cloud-based, modernized business model by accessing their vast customer base, data competency, and powerful distribution platforms.

Insurers are well aware of the looming threat from these technology giants and the market dominance they could establish if they combined their digital distribution prowess with clever product design. One of the clear game changers is big-tech firms partnering with an established carrier with a joint go-to-market strategy to fundamentally disrupt the Direct-to-Consumer (D2C) segment of the insurance market.

How is the insurance industry approaching transformation?

Everest Group take

Increasingly, organizations are centralizing their transformation initiatives, a practice emerging after the failure of siloed investments in the past. This is especially true for large insurance enterprises that face a heavy risk of redundancy and resource wastage through uncoordinated investments. Insurers must strike a balance between the centralized and federated approaches to avoid bureaucratic delays in their transformation journeys.

Operationalizing transformation

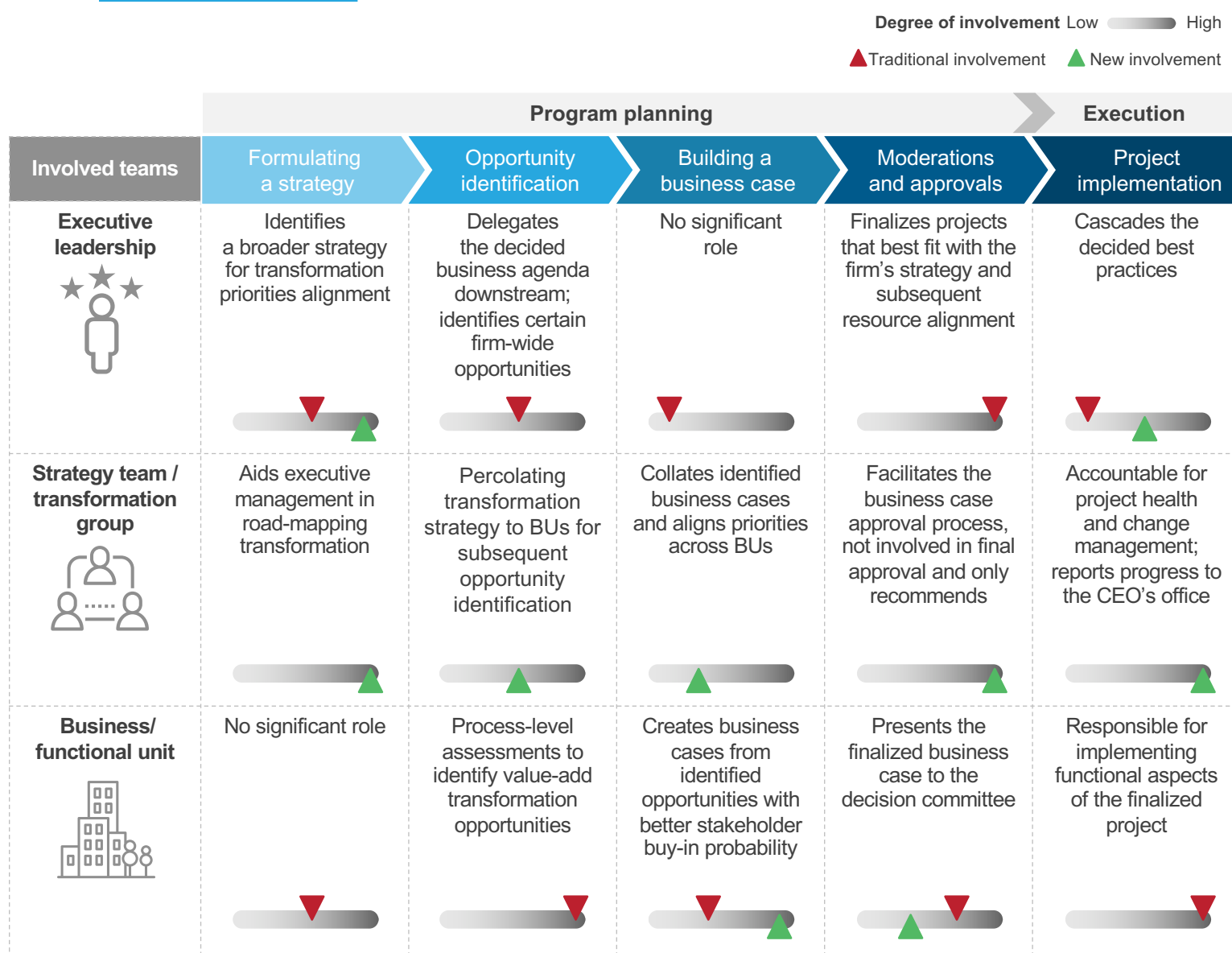
Insurers are approaching transformation by breaking it down into five key steps: formulating a transformation strategy, identifying opportunities, building a business case, carrying out moderations and obtaining approvals, and implementing the project.

The key associated activities at each step and how different responsibilities are divided across all stakeholders are depicted below.

EXHIBIT 3

Operationalizing transformation initiatives

Source: Everest Group (2021)



Formulating a strategy

Formulating a strategy before identifying new transformation opportunities is a recent concept for most insurance enterprises. Executive leadership teams are now establishing clear strategic priorities so that different investments across the organization are consistent with the final goals and have a unified approach, thus ensuring a common direction.



The executive leaders started a top-led transformation approach. The objectives identified were made a part of everyone's performance targets.

– Leading global P&C insurer

Another emerging concept is the creation of a strategy or change/project management group that assists the leadership in identifying the important priorities at this stage.

Transformation initiatives should not serve siloed agendas; the claims function should not be consuming resources to build tools only good for itself.

– Global multi-line insurer with an L&P-heavy portfolio

Identifying opportunities

Once the executive leadership has charted out the strategic priorities, this agenda is relayed to the business/ functional units to identify complementary opportunities, reinforcing the top-down approach. These business/functional units are then tasked with identifying relevant opportunities, given their knowledge of the ground realities. In some cases, the leadership teams of certain small carriers have compared their operational/financial metrics with market benchmarks to identify areas that need improvements.

In fact, leadership teams are getting directly involved in opportunities that have ramifications across the organization, such as core/platform modernization, implementation of D2C channels, and creation of digital business models, given they require a much higher degree of collaboration and resources.

In the past, enterprises adopted a use-case or pain point-solving approach to identify opportunities. Now, with this more centralized approach, opportunities are being looked at from a

strategic value perspective. Some enterprises are using external assessments for outside-in opportunity identification to mitigate the risk of a narrow inside-out mindset. Some reinsurers are also examining the transformation trajectories of their competitors to understand the gaps they face.



At times, executives will compare internal expense ratios with market benchmarks and deep dive by function to identify opportunities, and, sometimes, a consultant is brought in to do an objective analysis.

– US-based small commercial P&C insurer

Building a business case

With a more centralized approach, Business Units (BUs) have to defend the validity of their identified opportunities through a business case creation. Given the number and variety of cases being pitched across the organization, each business case needs to be compelling. Some functional/BU leaders are taking an early buy-in approach and proactively resolving upstream/downstream dependencies and conflicts with other affected stakeholders.

The key elements of a strong business case include:

- **Current state assessment:** An in-depth evaluation of the current state, covering impacted processes and units, operational preparedness and complexities, existing talent gaps for execution, and any procedural dependencies in terms of cross-functional workflows, among others
- **Financial rationale:** A transparent analysis of the financial implications, including estimated costs, such as talent and technology costs, associated sunk costs to be borne, RoI forecasts, and the project's Net Present Value (NPV), per the best possible estimates
- **Associated risks:** Risks anticipated on the journey, including mitigation plans to work around identified risks
- **Defined KPIs:** Define and map the success parameters to validate the achievement of expected benefits and ensure timely progress in subsequent stages post approval

Carrying out moderations and obtaining approvals

This step is common within larger enterprises that have a more structured approach to transformation execution. The business cases submitted by BUs/functions are first assessed by a strategy or transformation group, and leading contenders are selected based on their alignment with enterprise-level objectives. The cases are then recommended to the executive leadership for its review and final approval.

Fund allocation for approved projects is also becoming centralized – especially at large global enterprises. The key objectives are to avoid the duplication of efforts and establish greater control over funds, especially for large projects. In addition to centrally approved budgets, BUs also have some budget allocated to fund their own projects.

Organizations' executive leadership highlight the following criteria for project selection:

- **Business impact:** The most-important factor is the business value of an opportunity. This can mean different things for different insurers: For example, some life insurers emphasize on active blocks rather than closed blocks transformation; others prioritize growth markets for new investments, with mature markets expected to fund transformation themselves. The size of operations also influences project selection. For example, small insurers mention a higher focus on top-line growth, so selected enabling transformation opportunities such as product innovation or distribution transformation. In contrast, large insurers with sufficient scale aim to achieve operational efficiencies by automating bottlenecks and redundant activities
- **Strategic alignment:** It is also important for the project to align with the firm's broader strategic priorities. For example, most insurers prioritize superior customer experience and have approved projects that transform customer-facing processes/channels
- **Depth of the solution:** Historically, risk-averse carriers have selected low-hanging fruits, though they now understand that this approach limits the achievable value. An insurer we interviewed mentioned that simpler point investments within underwriting generated limited outcomes, and it was now looking to digitalize certain core decision-making points using advanced analytics and API connectivity to external data systems
- **External market factors:** Although rare, external market factors also influence project selection. For example, an insurer had approved investments in its compliance function to meet the urgent, large-scale requirements of new regulations

We have sufficient scale, so the focus has now shifted to creating operational efficiencies across the organization and automating as much as possible.

– Large L&P insurer

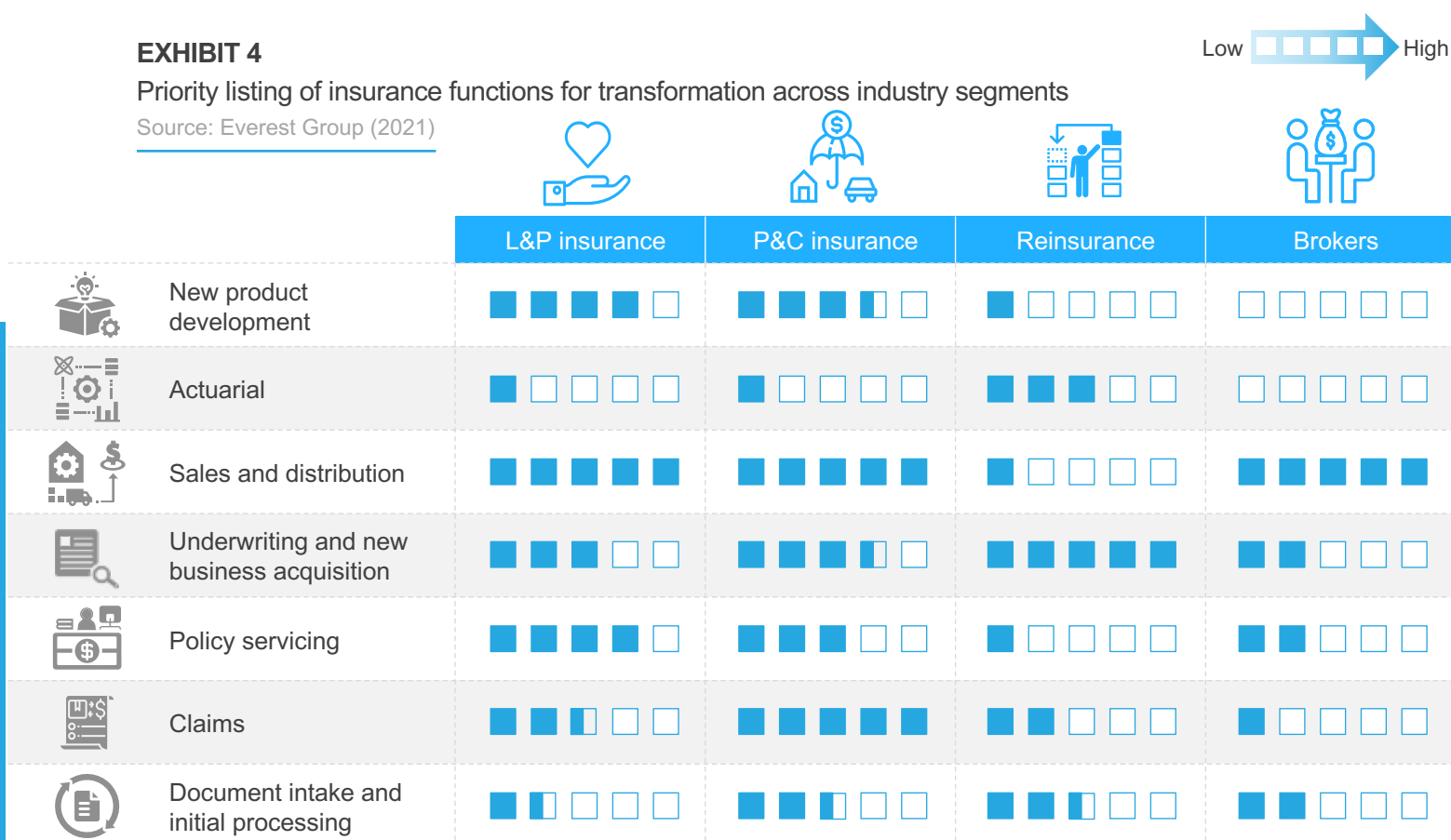
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The exhibit below depicts the functions that are currently being prioritized for transformation across different insurance segments.

EXHIBIT 4

Priority listing of insurance functions for transformation across industry segments

Source: Everest Group (2021)



Prominent transformation priorities across functions

New product development	Sales and distribution	Underwriting and new business acquisition
Customer journey and design thinking-led product creation, usage-based insurance using telematics and smart home sensors, value-add services such as financial wellness in L&P insurance, social media analytics / behavioral analytics, hyperlocal weather analytics tools, cyber risk management	Digital sales-enablement tools to increase agent productivity, D2C channels (both proprietary and partnerships), cross-sell/upsell analytics tools, broker/agent and channel analytics, online-offline channel integration, custom-fitted policy offerings	AI-based automated underwriting, remote risk assessment, integration with third-party data sources, modernization of core systems, pattern identification using advanced analytics to improve risk selection and assessment, automation of transactional steps in onboarding, document digitization
Actuarial	Policy servicing	Claims
Machine learning models for data-driven assessment on expansive datasets, infusing more data science talent	Real-time self-service portals / omnichannel, conversational AI service chatbots, legacy platform modernization, reduced reliance on contact centers	Mobility for First Notice of Loss (FNOL) and document submissions, advanced analytics for claims triage and fraud identification, geospatial analytics, drone inspections, image analytics for damage assessment, intelligent automation to enhance claims Straight-through Processing (STP) rates, document digitization

Implementing the project

The responsibility for project implementation lies with the functional teams / BUs that identified the initial opportunity. Progress is tracked centrally by a transformation or project/change management group that ensures timely execution of the project within the stipulated budget and reports progress to the executive team. It also ensures the alignment of BUs / functional units with other support groups, such as IT and finance.

Our research highlighted the following key aspects from the implementation phase:

- **Agile, accelerated deployments:** An agile, test-and-deploy approach is becoming popular to achieving quicker and scalable results that maintain the leadership's confidence in ongoing investments
- **Build vs. buy:** Some larger insurance organizations are partnering with companies with specific digital capabilities to speed up their journeys and reduce the time required for internal capability development
- **Delaying the organizational structure:** Some enterprises are delaying their existing structures to reduce bureaucracy and expedite the deployment of transformation projects
- **COVID-19-related acceleration:** The global pandemic has changed leadership response times to transformation opportunities. Consequently, the pace of project approvals and subsequent deployments has significantly increased



We have significantly accelerated our deployments and R&D investigations over the past 18 months. Earlier, it was more incremental; now it is more aggressive.

– Global L&P insurer

Challenges to transformation execution

Insurance enterprises mention several challenges on their journeys to achieving transformation, including:

Internal stakeholder resistance

Respondents explain that it is easier to convey transformation priorities externally than internally. Transforming the underlying business models and processes inevitably changes roles and responsibilities, creating pushback from employees, many of whom have done things the same way for 20-30 years. Additionally, there is a negative perception that implementing digital operating models will inevitably result in a smaller workforce. However, things are changing, and many enterprises now consider digitalization as a means to limit future expenses on additional hiring in line with the growth achieved.

Bridging the skills gap

The existing skills gap is a key constraint for most firms. Underwriting needs more data science skills, distribution roles need a customer experience mindset, and product development requires design thinking skills. Insurers also struggle to attract talent with digital skills that are essential for transformation. Moreover, many leadership teams lack experience in spearheading transformation initiatives and fail to effectively operationalize the identified opportunities.

Technology on its own is not a hurdle to transform. We have adequate capital and resources to invest in the needed change. What we struggle with most are people transformation and attracting quality talent.

– Large reinsurer

Financial pressures exacerbated by the current market environment

Available budgets for transformation projects remain limited for most firms and are impacted by current performance and the prevailing market environment. Heavy capital requirements and low interest rates are restricting the financial flexibility of many life insurance companies. The pressure to maintain capital adequacy also diverts the senior management's focus away from transformation. For P&C insurers and reinsurers, climate change is the most unfavorable dynamic, which is a huge risk to transformation investments, as more frequent and severe catastrophic events eat into the resources available for new investments. An insurer highlighted that whenever such high levels of claims payouts occur, R&D budgets are generally the first to be cut.

Project and change management

Inadequate internal alignment and a disconnect between IT and business/functional teams are key risks to overall project success. Change management is a key concern as associated risks are compounded by the limited transformation experience of many insurers. If existing policies and processes are not updated per upcoming changes, especially those concerning data privacy and security, they could result in non-compliance.

A legacy core

Many insurers have legacy business processes and technology infrastructure, and it remains difficult to build on top of a legacy core despite identifying digital opportunities. Some European insurers have revealed that they have spent millions on failed modernization investments. Additionally, because legacy processes are complex, undocumented, and difficult to modify, changing them can also create non-compliance risks.

To address these challenges, we have compiled a call-to-action for insurers, as detailed below.

EXHIBIT 5

A call-to-action to address transformation operationalization challenges

Source: Everest Group (2021)



Complex organizational structure

- Delayer the management team to cut the red tape in opportunity identification and project execution
- Simplify the operating model; most large and global carriers work with extremely federated BUs that have developed individual processes that are not consistent across the organization

Internal stakeholder resistance

- Identify upskilling possibilities to the extent possible and clearly communicate roles' evolution with digitalization
- Potentially create a separate digital-led subsidiary for new and future products, with traditional units only servicing run-off businesses. This strategy is most suited when a large part of the current workforce is nearing retirement

Bridging the skills gap

- Frame talent strategies aimed at developing critical digital and cognitive capabilities
- Promote an innovation culture
- If needed, partner with insurtechs or IT/BPO providers to access digital skillsets and ideas

Financial pressures exacerbated by the current market environment

- Encourage mature units to self-finance transformation through operational optimization-led cost savings
- Create centrally led cost-savings objectives to be met by simplifying operations and modernizing technology
- Improve climate risk-assessment efficiency by employing data-driven measures to minimize adverse impacts upon risk realization
- Explore divestitures for legacy and non-strategic books of business

Project and change management

- Establish robust governance mechanisms with clearly identified roles and responsibilities, outcomes to be tracked, etc.
- Keep an eye on the evolving industry best practices for transformation
- Launch a comprehensive audit mechanism to track change adoption and continuous feedback incorporation from employees
- Promote collaboration between different stakeholder groups, especially business and IT

A legacy core

- Wrap legacy systems with modern technology, rules engines, and workflows to reduce the cost of policy servicing
- Migrate legacy applications and data onto modern platforms and the cloud
- Leverage IT/BPS providers for the optimization of legacy IT and operations

What transformation investments are required?

Everest Group take

In line with the underlying transformation objectives, insurers' investments are geared toward building a future-ready operating model that can deliver a fulfilling customer experience. This end state requires investments across multiple dimensions, that is, data, technology, people, and processes.

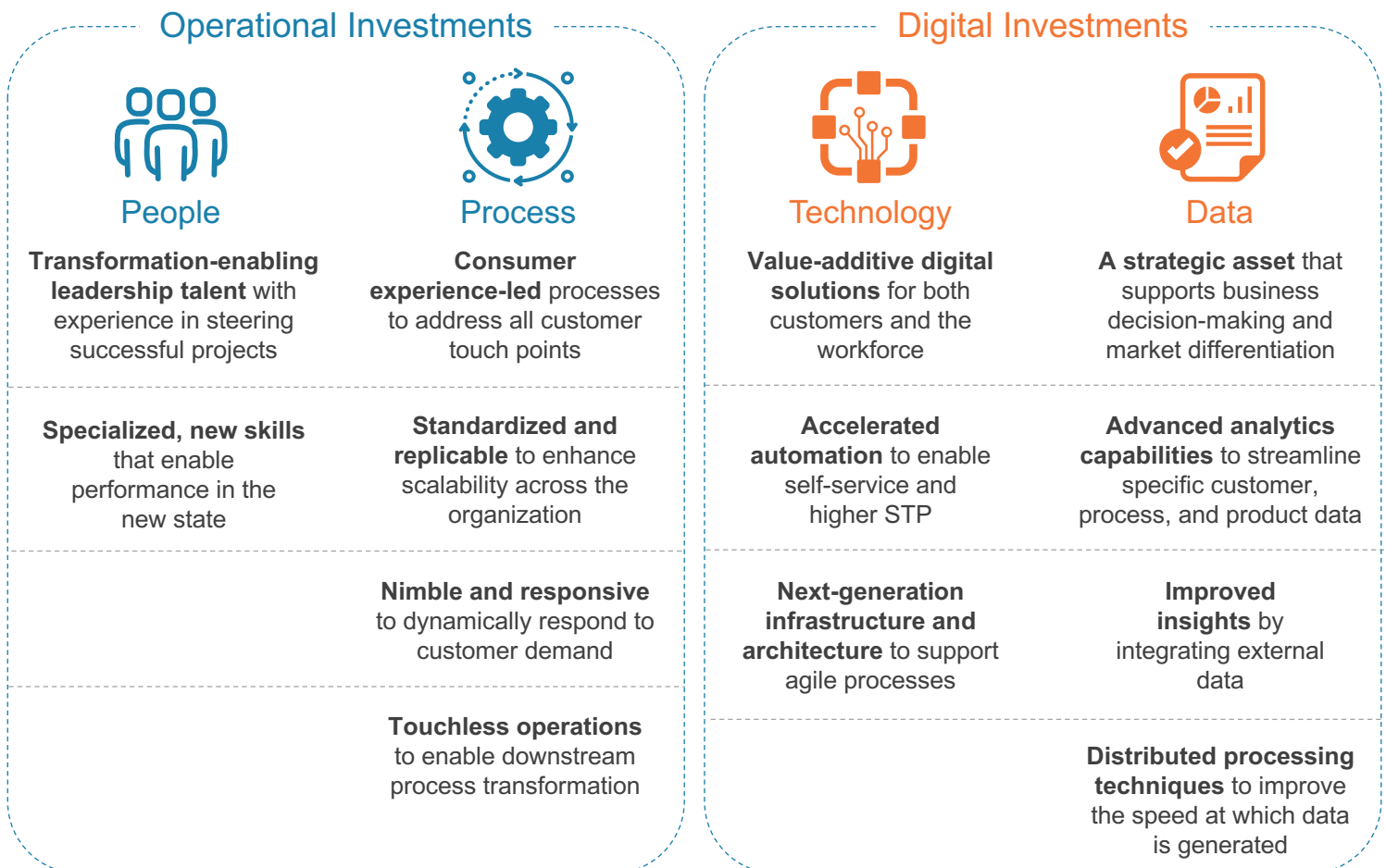
Insurance enterprises' future operating model

The end goal of a transformation exercise is to establish agile operations and seamless workflows in which the front-, middle-, and back-office units are digitally empowered and can create superior value for customers. To facilitate this future state, insurers' Target Operating Models (TOMs) are increasingly being shaped by a sharp focus on enterprise-wide digital enablement encompassing data, technology, people, and processes, as illustrated below.

EXHIBIT 6

Key characteristics of insurers' new TOMs

Source: Everest Group (2021)



Investments that will enable the target state

Insurance enterprises are charting out multi-year investment plans for transformation. Besides getting together internal resources and Intellectual Property (IP), they are leveraging the external ecosystem to align investments with the TOM's key dimensions – data, technology, people, and processes.

Investments in data

The insurance industry is heavily reliant on data, and so innovations that create high-quality, digitally accessible, and real-time data assets are key priorities across the board. Data management innovation is supported by investments in sophisticated analytical algorithms – from product development, pricing, and sales to behavioral analytics, data-driven underwriting, capacity planning, contact center, and claims – in order to guide decision-making across the entire value chain. P&C insurers and reinsurers are currently leading these data investments and have adopted sophisticated analytics, while L&P insurers and brokers that are hindered by legacy and disconnected systems are first investing in the data management layer.



We are planning to grow our data analytics capabilities and become a partner of choice for insurers looking to benefit from new sources of data.

– Leading reinsurer

Given limited internal IP, some stakeholders have to convince their senior leadership of the value of investing in data analytics. A case in point is Hiscox's partnership with Mango Solutions, through which the Hiscox Data Labs team was able to demonstrate early success in product personalization and claims capacity planning, thereby securing leadership buy-in for future investments.

Investments in technology

● Modern integrated platforms

Creating an integrated and flexible underlying technology infrastructure is vital for enterprise-wide digital enablement. While P&C insurers are already modernizing their core platforms, albeit for critical segments such as personal lines, L&P insurers and brokers are playing catch up, as most of their core systems are old, inflexible, and inadequate for current needs. Those that have realized the need to modernize have been migrating their legacy policies to modern systems provided by IT/BPO service providers, while others are launching new products on these partner systems. Notably, as both L&P and brokerage industries have grown through numerous acquisitions that have added multiple layers of inefficiencies, creating IT-infrastructure synergies is another key objective.

“ We anticipate the platforms to be deeply integrated across our firm, facilitating streamlined back-end processes, while at the same time making the buying process easier and more efficient for our customers.

– Leading US broker

- **Cloud**

Insurance enterprises across all segments acknowledge the immense potential of the cloud and are assessing the best ways to invest in it. L&P insurers are particularly interested in the cloud, given limited past investments, but they also have data security- and compliance-related concerns. Some have highlighted the limitations of legacy contractual clauses, which enforce data to be kept on-premise. However, these challenges are only regarded as problems to be tackled as the cloud is adopted. Except for reinsurers, the cloud has emerged as one of the most important strategic priorities moving forward.

Although we are wary of investing due to compliance concerns, there is a minefield of opportunity in the cloud, which should be harvested. It is the most important priority from an investment standpoint moving forward.

– US-based L&P insurer

- **Automation**

Automation is the bandwagon every insurer wants to jump on to. Many leading insurers have already automated parts of their operations and are now striving to achieve scalability across regions and BUs. Large carriers stand to gain the most, even by automating standard processes due to their scale of operations. They are addressing the initial hiccups, such as exceptions in processes that need manual interventions, through improved data quality at source by implementing document digitization solutions. Reinsurers are the only segment that do not have a keen interest in automation, given that their B2B processes are judgment-intensive and complex. However, they too realize that there are pockets where this technology can and should be applied.

We aim to introduce automation-led efficiencies in our policy administration function and reduce our reliance on manually run contact centers.

– Leading life insurer

- **Artificial intelligence / machine learning / cognitive**

At its core, AI has two broad applications – automation and analytics. For analytical applications, P&C carriers are visibly ahead of L&P carriers, especially for the claims and underwriting segments of the value chain. Notably, reinsurers believe that AI for automation is largely irrelevant, but they are interested in using the technology for sophisticated data analysis.

While investments have dramatically increased, most insurers are still in an exploratory phase, given the realization that current infrastructure and processes are not aligned with the technology. One key hurdle is the inability to leverage expanded (integrated with external data sources), reliable, and digital datasets in manually driven, fragmented, paper-based, and undocumented processes.

Wellness – both in terms of health and finance – is becoming an important aspect of customer needs. We are leveraging AI-based analytics to identify those opportunities and enable the right value.

– US-based L&P insurer

Investments in people

A key element in achieving transformation is getting access to the skill sets that can execute transformation projects. Insurance enterprises' existing IT and business talent is ill-equipped to implement new digital solutions, and the young talent that possesses the relevant skills is not motivated to join the industry.

Respondents are addressing this skill gap by:

- Developing Centers of Excellence (CoEs) in locations that have moderate availability of digital talent
- Upskilling the existing workforce with relevant training and certifications
- Partnering with insurtechs and startups that have a better chance of accessing digital talent
- Making their brand attractive to a younger, digitally skilled workforce by promoting an innovation mindset
- Partnering with IT/BPO service providers to access a scalable talent base



We strive to strengthen our employer brand by facilitating mobility across functions and offices, refining succession planning, and strengthening the talent review process.

– Leading reinsurer

Most respondents also highlight a crucial point – building a leadership team that promotes and creates an innovation-led culture. At all levels of the organization, leaders with past transformation experience in insurance or adjacent industries are being hired, or managers who have successfully executed transformation projects are being promoted.

Investments in process

Another key requirement to execute transformation is optimizing the underlying processes. With heightened customer expectations, market differentiation is no longer limited to having best-in-class products. They need to be backed by efficient and nimble processes to sustain and drive value from a new business model. Thus, carriers are investing in Lean Six Sigma tools and associated training, along with implementing digital upgrades to eliminate process-level inefficiencies. These investments facilitate change by improving process quality. They also enhance customer satisfaction by standardizing routine processes.

A foundational technology imperative to the success of any transformation exercise is process mining. This exercise complements human-led opportunity identification by examining processes in real-time, ensuring that organizations' digital investments are geared to address the right problem areas. A case in point is that of a leading European P&C insurer, which improved its claims processing efficiencies by addressing the issue of incorrect routing of incoming cases through process and task mining. Some enterprises have also used process standardization and mining techniques to optimize consumer communications by identifying priority areas where frequent customer support is required.

Reinsurance firms are also making process-related investments to streamline their data management practices and overcome data standardization challenges. These investments enable automated mapping of inflowing information to specific clients and quicker risk predictions and payout assessments.

Process optimization investments, in the form of process and task mining technology / process excellence software / Lean Six Sigma principles, are increasingly finding greater purpose in insurance organizations' innovation exercises. Combining insights from these techniques with modern digital interventions (analytics/AI/cloud) will have a multiplier effect for reinsurers/brokers, by placing bets in targeted and apt transformation interventions.

Conclusion

To maintain relevance in a dynamically evolving marketplace, insurers are building digitally equipped business models to future-proof their growth. As they move forward on their digital journeys, these are some guiding principles to progress in the right direction:

- Transformation is not a one-time overhaul of the business but a carefully calibrated journey of sequential investments. Insurance enterprises need to create well-informed strategies that incorporate their current transformation maturity, gaps in skills and assets, potential implementation complexities such as undocumented and fragmented processes, measures of accountability and progress, and best practices adopted by more advanced peers
- It is important to learn from past failures in innovation investments to inform future strategies. For example, while P&C insurers were quick to jump on the digital bandwagon, most of them only introduced digital applications for front-end customer touchpoints, such as FNOL. Core policy administration platforms did not receive as much investment, and thus back-end operations remained inefficient. L&P insurers seem to have learned from this oversight, with many investing in core platform modernization before augmenting front-end digital applications
- Transformation does not have to be a do-it-yourself exercise if internal capabilities are lacking. Many insurance enterprises have partnered with third-party service providers to migrate from legacy platforms and establish managed services partnerships. This has helped convert capital expenses to operating expenses and freed up budgets for other strategic priorities. P&C insurers, which initially undertook these initiatives in-house, are now exploring the third-party ecosystem to realize faster RoI. Similarly, many insurance enterprises are also partnering with third-party service providers that have successfully implemented TOM transformation projects, to leverage their experience for rapid speed-to-market
- Innovation investments should involve equal participation from both the business/operations and IT teams. Changes to underlying processes were initially deprioritized in favor of coding new applications, which would either result in a high level of exceptions or business users not utilizing the new tools available. A process-first approach is critical to achieving the intended RoI from digital projects. Process standardization across different product units and regional markets is imperative to ensure better investment scalability. This is especially true for P&C insurers that work within an extremely fragmented environment for different product lines and regions. Some P&C insurers have also established shared services centers to standardize functions such as billing, mailroom, and intake to reduce operational waste before implementing digital solutions

In a nutshell, there is no one-size-fits-all approach to successfully transition to a future-fit operating model. Priorities will vary depending on the insurance segment, business model, and the size of operations. Insurance enterprises should be sensitive to their unique requirements and avoid a narrow inside-out mindset to achieve successful transformation.



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