



## How Digital are You?

Our perspective on digital transformation in the insurance industry





# Abstract

With an increasingly complex regulatory environment and the fastest-changing consumer ever, the need for insurers to reassess digital capabilities and agility has never been greater. But even though insurance companies understand the importance of digital transformation, few are capitalising on the opportunity, beyond (for example) putting a simple Facebook icon on their home page.

When it comes to the “why”, the message has definitely landed with CxOs, but the debate is quickly moving to the “what” and the “how” (see diagram “How Digital are You?” on page 9).

Clearly, opportunities are being developed based on the internal and external benefits: primary areas are those that impact top line or brand value, ranging from improving customer experience to introducing new product offerings.

But digitisation is not just about customer acquisition (where historically much of the focus has been): it is also about transforming internal processes and leveraging the power of data, which are ultimately the engines that drive organisational performance.

In the future, the most successful insurance companies will be those that:

- Are fast-learning and technology-savvy, and adopt a customer-centric strategy
- Can foster a culture of change
- Leverage digital tools to improve speed, agility and insights



Insurers in a digital age -  
it's more than just Facebook



Everyone knows “digital” is important, but there is more to this than putting up a social media icon on your home page or developing a Twitter stream (although 56% of Fortune 50 companies still haven’t done that)<sup>1</sup>. It’s like the early days of e-commerce: we all instinctively know we should be doing something, but are not so clear on what it is.

In the competition for corporate spend, digital projects (let alone a complete digital transformation) will struggle to compete against obvious revenue drivers, cost reduction prizes, or the gathering clouds of ever more regulatory change. And yet, on closer inspection, that is exactly what we’re talking about: digitisation is essential for top and bottom line growth, and for keeping those nasty regulators happy.

If we think the regulators are challenging, imagine the impact of a bunch of customers “trending” on what is wrong with you and your business.

Reviewcentre.com is a great example: customers can search on almost any product and instantly get hundreds of brutally honest reviews. Scary stuff.

Today’s consumer environment is changing rapidly, presenting enormous challenges and opportunities for insurers. Consumers are technology-savvy,

with increasing access to instant, up-to-date information about not only your product offering, but also your claim processes and the quality of your customer service teams. What’s more, consumers want a purchasing experience that is both convenient and easy – with 36% of customers already preferring to help themselves online<sup>2</sup>, the transition to online as a mainstream sales channel is inevitable. In a world where customers are building up bargaining power, and business performance is increasingly driven by customer satisfaction and loyalty, there is a pressing need for insurers to transform their digital capabilities.

In doing and becoming “digital”, insurers lag behind their retail counterparts dramatically. Insurers are experimenting in digital interaction, but have developed little in the way of actual interaction, and still remain primarily at the “information-push” stage, where communications consist of product or contract information at best. This indicates a traditional “wait and see” approach that insurers have frankly been famous for when it comes to innovation. The question is, is this really about being innovative, or is it simply a must-do in today’s digital age? Consider, for instance, that customer acquisition is 50% cheaper online than offline, and call centre technical support is 92% cheaper for a virtual agent and 99.2% cheaper for web self-service<sup>2</sup>. Sounds like a

must-do to me. Judge for yourself.

And if you think you have your customer channels covered, that’s not the end. Digitisation is not just about customer acquisition and service; it can transform and improve the entire operating model including compliance, underwriting, claims handling and distribution. Many sophisticated digital tools are readily available today, but insurers are still trying to figure out how to capitalise on this opportunity. In short, a clear digital strategy that supports the overall business strategy will separate the winners from the losers.

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# So what to do?

## Map out opportunities in the value chain

First of all, it's useful to categorise the opportunities in a simple framework – in this instance, they boil down to external (revenue) and internal (cost) impacting bottom line and/or brand value. Customer, operational and product opportunities are in play across the value chain. The pace of the journey is very much linked to pressures externally and capability internally (and of course insurers' DNA is, and should be, about appraising risk before saying "go").

### Customer

- **Customer experience:** Improving customer experience means changing corporate processes that optimise every interaction a customer has with you, and this is an area many insurers find difficult to grasp and control fully. This is because insurance companies tend to be inward looking, and have functional silos with fragmented responsibilities<sup>3</sup>. In an industry where there is little product differentiation and product innovations are swiftly copied, customer experience remains one of the few sources

of sustainable competitive advantages.

- **Customer insights:** To optimise customer experience, insurers must systematically measure and understand what customers want, and provide a consistent service that will meet this demand. A company that has developed a deep understanding of consumers can tailor its marketing campaigns, sales techniques and product offerings to suit specific consumer segments, or introduce new brands that appeal to a particular niche. Analytics will be at the heart of customer, product and risk innovation. It is a fundamental requirement for an insurer to "know the customer" in order to underwrite and appraise risks, and therefore this is expected to grow as the key core competency.

### Operational

- **Cost reductions:** High insurance penetration, price-sensitive customers and the global economic crisis have limited the ability of insurers to grow premiums and investment returns. The focus

in the market in the last couple of years has therefore been on underwriting performance, and cost-effective and efficient ways to acquire customers and manage claims. Opportunities in cost reductions can range from communications and supplier management, to service delivery and claims management. Many of the mature insurers are struggling to see the next wave of cost reduction opportunities without a complete business model change.

- Productivity improvements:** By increasing the productivity and efficiencies of core processes such as underwriting, claims management and policy administration, insurers can significantly improve their profit margins<sup>4</sup>. Insurers can also improve productivity by helping workers to sell and service externally, and communicate internally more efficiently and effectively.

### Products

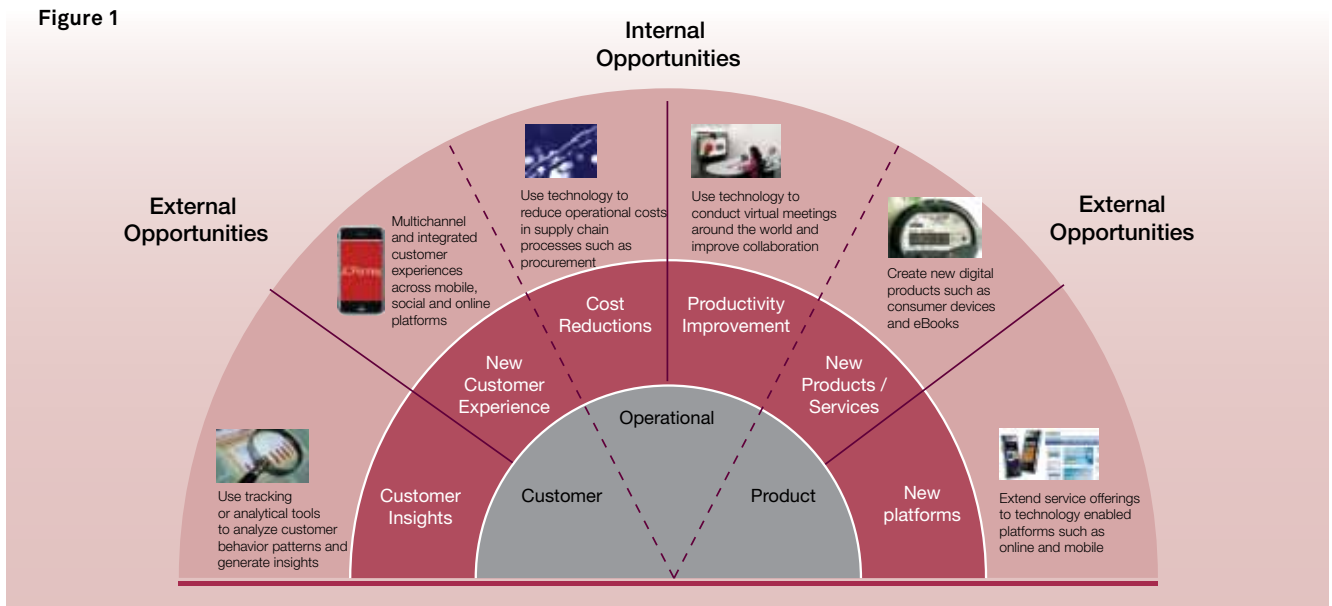
- New products:** A continued focus on operational excellence, while important, will eventually lead to diminishing results for insurers as essential systems needed to run and optimise insurance business become commoditised. The next frontier, therefore, will lie in innovating and differentiating on products and propositions based on a complete understanding of customers<sup>4</sup>, and quickly identifying winners and losers (as FMCG and pharmaceuticals companies do). Some of the new digital insurance products include mobile products such as M-Claim, M-Compare, M-Bundle, M-Buy and M-Renew; these need to evolve constantly.
- New platforms:** The high adoption rate of mobile devices and Web 2.0 tools – such as social media, collaboration applications, smartphones and tablet computers – is changing the way people share information, learn, communicate

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Figure 1



## Utilising the full potential of data

and interact. Organisations can interact and engage with customers via new media in addition to the traditional face-to-face and call centre platforms. Defining and formulating a multi-channel strategy (and making the right choices) also enables companies to maintain a 360-degree view of the customer and to ensure consistent sales, customer care and retention across channels.<sup>5</sup>

And it's not necessarily all about new choices and spend – using digital interventions to sweat existing assets is just as important.

A study by Capgemini Consulting in November 2011 investigated the use and availability of smartphone applications by the top 19 insurers in France. Overall, the mobile applications were used in two ways – to provide customers with greater access to information, and to improve contract management. The good news is that there were nearly 70 applications in play. The challenge is to determine how bold or tangible the objectives and outcomes are. In addition to mobile applications, there are still many digital resources that insurers have yet to explore. We expect to see a shift towards more sophisticated digital capabilities in the next few years.

At the end of the day, insurers are in the business of gathering and analysing data to appraise risk. This is what they do: this is the bread and butter of insurance. In 2009, more digital information was produced than all information since the beginning of time. Wow.

So how are insurers positioning themselves to embrace and exploit all the “new” data that exists, identifying the useful nuggets within all the noise and operationalising to make better decisions about what customers need, and about how risky those needs are to insure? It has long been a lament of insurers that there is a limited amount of transactional data to exploit in order to drive predictive awareness. Whether this limitation reflects the nature of the relationship with customers, or the capability of the insurer to capture and analyse data, there is no doubt that more data exists – the question is how best to use it to strategic advantage.

IBM research indicates that the gap is widening between those who have historically invested in analytical sophistication and achieved competitive advantage, and those who haven't. Over and above the more practical collection of insurance risk data, the study notes that “strategic risks, rather than financial risks, were responsible for 68% of severe market capitalization declines between 1998 and 2009”<sup>6</sup>. So an insurer suddenly requires multiple layers of practical data management – not just **Insurance Risk**, such as actuarial, underwriting and pricing, but also:

- **Financial:** forecasting, budget allocations etc.
- **Operational:** streamlining, supply chain related etc.
- **Strategic:** organisational objectives, defining and refining new products and services etc.
- **HR:** evaluating employee performance, allocating time and effort etc.
- **Customers:** facilitating improved experience, targeting the right customers, defining marketing campaigns etc.

That's a lot of data to gather, analyse and exploit to your advantage whilst still excelling at your core insurance business.

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## Transforming internal processes

Although transforming customer experiences would appear to be the most visible – and arguably the most exciting – aspect of transformation, firms are also realising very strong benefits from transforming internal processes<sup>7</sup> (and knowing how and when to run current and new processes in parallel). A global insurer has created a central digital platform for core claims processes, and deployed the model across several countries. Employee self-service systems in areas like HR are also becoming widespread. But there is more to this than just automation (that theme has been around for a while). Automation should enable companies to refocus their people on more strategic tasks. Ask yourself how much of a product underwriter's daily time is spent either manually underwriting or manually designing (via complex internal product design and configuration processes) new products or just simple product

extensions. Now ask yourself how much time you would prefer they invest in real R&D, innovation and creativity, and seeking out new pools of profit.

Breaking down the silos between the various functional areas, and putting product development at the heart of the business, starts to make an insurer more like an FMCG or pharmaceutical company. Is this really possible? Innovation “labs” are the heart and soul of innovative businesses – why not insurers?

It is now possible to automate and digitise the processes that overwhelm the day jobs within core strategic functions, as well as the processes for gathering and exploiting data (not to mention handling the sheer volume). Doing so is a key enabler for the insurance company that wants to make its internal culture into a “digital” one.

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# Insurance company of the future

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**The “insurance company of the future” will have operations, services and product bundles that target specific customer segments**

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## **So what next?**

Rapid expansion of digitisation and ever-changing consumer behaviour are forcing companies to reassess and adjust business models. The truth is that in the future the success, or indeed survival, of insurance companies will ultimately depend on how well they are able to serve their customers. Gone are the days where insurers enjoyed a “push model” where a policy-centric and acquisition-focused culture was sufficient to drive sales and performance. Insurance companies will have to undergo major transformations in the next few years. It is vital to make the right choices, and to develop the enterprise capability to adapt and change on demand.

## **Customer-focused operating model**

Moving forward, the “insurance company of the future” will have a truly customer-focused approach, and a series of new operating models will be introduced to meet this goal.

Existing insurance companies are made up of strong functional silos, and such organisations often end up with fragmented responsibilities and therefore inconsistent customer experience. The customer-focused insurance company of the future will have operations, services and product bundles that target specific customer segments based on specific profiles, purchase patterns and lifestyles. The end result is that customers will receive products, services and communications that are tailored to be relevant and valuable.

It goes without saying that to operate a customer-focused model successfully, robust customer insights and analytics capabilities are critical. The most successful insurers will be those that are able to capture, analyse and act on insights with speed and precision. Insurers will need to compete and differentiate through a rich customer experience across the entire value chain, from research through to renewal<sup>8</sup>. Digital

tools such as social media and other analytics and predictive tools can help companies serve customers and foster innovation. The new customer-focused operating model will also require insurers to streamline legacy systems to provide a single view of customers; currently a major challenge for many insurers, this is another area where digital can really help companies transform.

### Increasing partnerships along the value chain

Although today's insurance market is mostly populated by "traditionalists" who try to manage both supply and demand, the role of specialists focused on parts of the value chain is growing. This group includes aggregators, underwriting specialists, claim management agencies and brokers. By 2017, specialists will become dominant in the market and will excel at delivering value

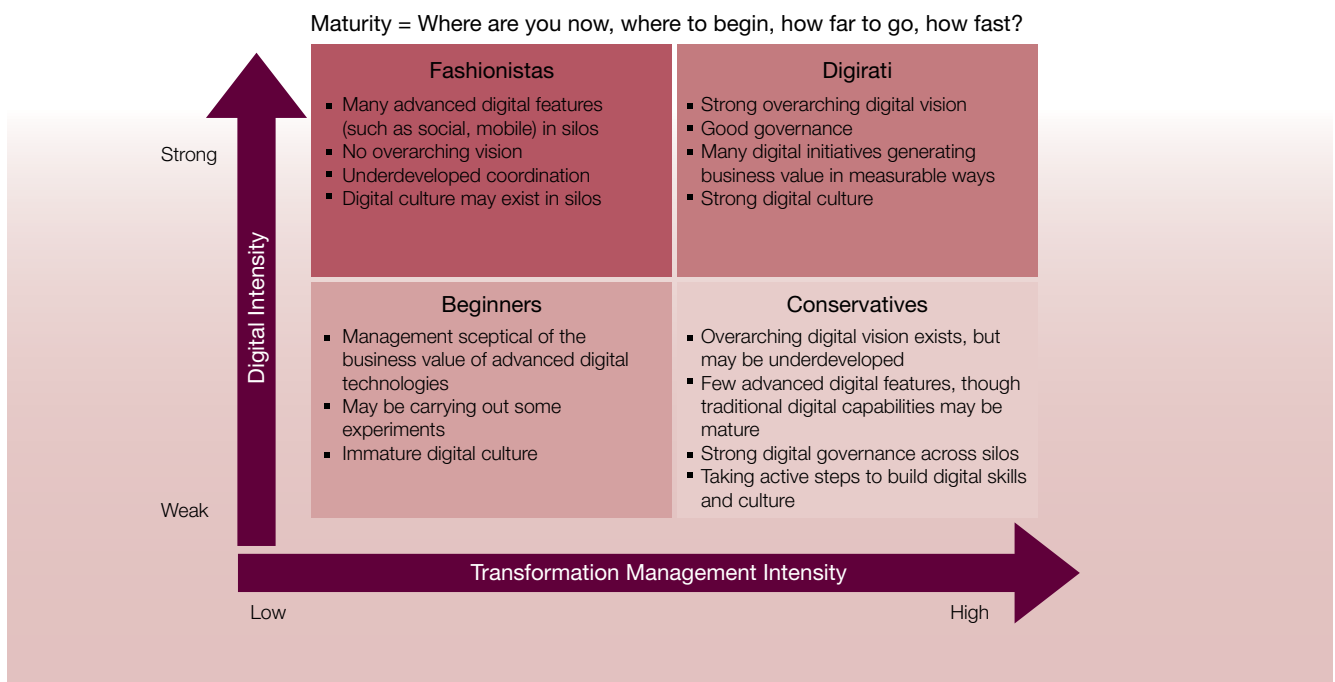
either in customer relationships (like Google and Confused.com) or risk management (like AIG and Munich Re). To increase efficiency and enhance strategic focus, full-service insurance companies will choose what parts of the value chain they want to specialise in, and outsource other parts to partners.

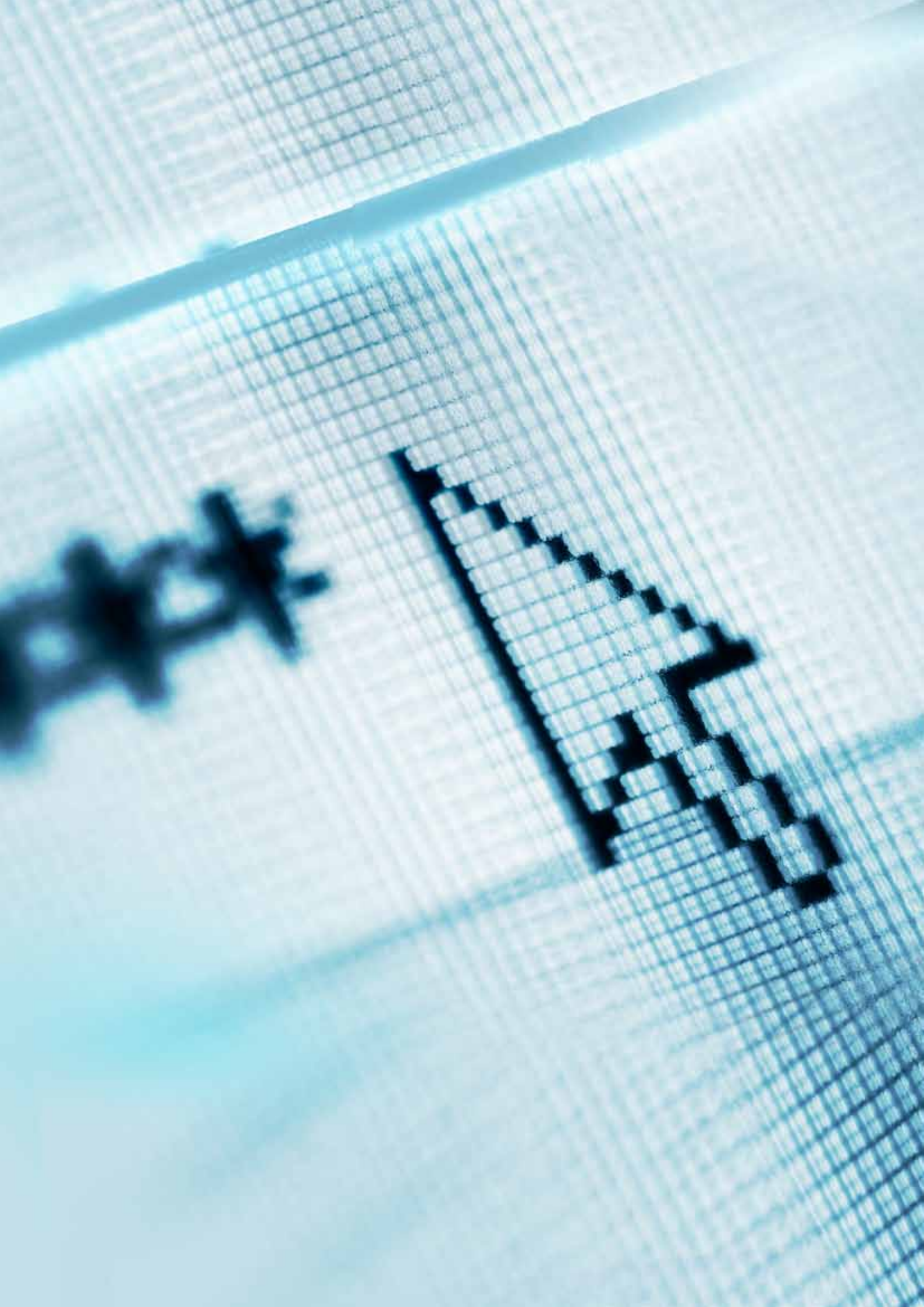
To optimise relationships with their partners, insurers must ensure customers still receive one unified message and brand proposition, as well as consistent, high-quality services throughout the customer journey. This would not be possible without the help of digital tools that can provide critical links between different systems across partnering organisations, and make available the most up-to-date information to keep all the stakeholders informed.

It is widely accepted that digitisation plays a key part in transforming businesses today, but few insurers have been able to move beyond implementing simple tools such as social media or mobile applications. With a rapidly-changing regulatory, economic and consumer environment, the most successful insurance companies will not only leverage digital tools to enhance processes, but also actively adopt a customer-centric strategy and foster a culture of learning and change.

What should a company do to become the digital insurer of the future, and how should it set about it? Deciding where you fit on the diagram below is a good starting point.

Figure 2





# Author contact information



**Alan Walker**  
Head of Financial Services  
Capgemini Consulting  
alan.walker@capgemini.com



**Eileen Lee**  
Digital Insurance Analyst  
Capgemini Consulting  
eileen.lee@capgemini.com



**Lee Brooke-Pearce**  
Insurance Digital Transformation  
Capgemini Consulting  
lee.brooke-pearce@capgemini.com



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