DIGITAL ADOPTION IN THE INSURANCE SECTOR
From ambition to reality?

A report by The Economist Intelligence Unit
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Introduction

Digital technology is “the single global megatrend” with the scope to revolutionise the insurance sector, warns Matt Cullen, assistant director, head of strategy at the Association of British Insurers (ABI). However, surveys find the insurance sector to be “digitally conservative”.¹ Customer adoption of digital technologies—including social media, mobile, cloud and analytics—is outpacing the technical, commercial, cultural and ethical capabilities of many insurance companies.

Internet connectedness and digital technologies have, some say, heralded “a third industrial revolution”, and the insurance sector, like many industries, has found the rapid pace and complexity of the change challenging. In the EY Global Insurance Digital Survey 2013, 57% of insurers said that their operating models did not facilitate digital, while 79% acknowledged that they were “not setting the baseline” for digital.²

For others, the connected world and the rise of digital technologies are the dawn of a more precise, data-driven era, unleashing a proliferation of opportunities for insurers to demonstrate their value and to reap the financial rewards of doing so.

This report will first examine the ways in which digital adoption is shaping the insurance sector by forging new business models, new commercial partnerships and different consumer relationships, and by providing new potential revenue streams. The report will then explore the ways in which insurers around the world are using digital technologies, including social, mobile, analytics and cloud (SMAC), particularly the deluge of data unleashed by the digital watershed.

¹ “Which industries are the most digital? How the digital leaders are already winning the digital race”, LondonCalling.co. Available at: http://londoncalling.co/2013/01/which-industries-are-the-most-digital-how-the-digital-leaders-are-already-winning-the-digital-race/

Digital disruption poses an interconnected set of challenges across the technical, commercial, cultural and ethical elements of insurance businesses. Digital technology is “the single global megatrend with more scope than any other to revolutionise how insurance businesses operate”, according to Matt Cullen, assistant director, head of strategy at the Association of British Insurers (ABI). He adds that digital technology “impacts and encompasses all insurers, all product lines, all the different functions of the business, and gets right to the heart of what these companies are doing”. Digital, therefore, “becomes a fundamental part of how these organisation need to think, not just how they need to act”.

Adapting business models
Selling insurance through door-to-door sales teams appears a quaint concept to 21st-century consumers. Kevin Murray, chief operations and information officer at AXA UK, part of AXA Group, a France-headquartered multinational financial services company, describes the journey from simply uploading brochure material onto early-phase websites to facilitating online quotations and (later) transactions as a bold move away from traditional understandings of customer service—and eventually to servicing customer needs through multiple digital and traditional channels (“multi-access”).

However, the EY Global Insurance Digital Survey 2013 found insurers limited in their digital capabilities: fewer than half were able to digitally provide information about products and services or provide a quote, a mere 23% could digitally process insurance claims, and just 35% could process a transaction/sale digitally (see chart below).3

According to Mr Murray, one of the greatest challenges is integrating the new and essential data analytics tools with existing legacy systems and ensuring the smooth and safe transfer of data between previously siloed departments and business systems. He says that front and back office, new products, customer service and “the interface” between those departments have been a stubborn challenge.

Digital functionality in the insurance sector
(% of insurers with digital functionality)

<table>
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<tr>
<th>Service</th>
<th>% of Insurers</th>
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<tbody>
<tr>
<td>Provide information about products/company</td>
<td>47</td>
</tr>
<tr>
<td>Provide quote</td>
<td>43</td>
</tr>
<tr>
<td>Customer self-service facilities</td>
<td>40</td>
</tr>
<tr>
<td>Transact/purchase</td>
<td>35</td>
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<tr>
<td>Process claims</td>
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The changing consumer relationship

Today’s consumers make purchasing decisions in a very different and far more fragmented way than they did even a decade ago. As Keith Misson, digital innovation director at Aviva, a UK-based multinational insurance company, explains: “One of the biggest challenges for insurers adopting digital and social technologies is balancing investment with customer expectations.”

Anchoring digital transformation to “digital natives” (those born between the early 1980s and the early 2000s, also known as Millennials or Generation Y) as being the “consumers of the future” can be both misleading and a subconscious delaying-tactic by insurers. Andrew Grill, global partner at IBM Interactive Experience, asserts that “the consumer of the future has already arrived”. In 2008 the Chartered Insurance Institute (CII), a UK-based professional organisation, warned that the industry risked being “mentally domiciled in the suburbs of the 1950s, relating to a vanishing generation of people who are interested in lifetime savings backed with job-for-life security”. The world has changed.

Today, customers are being prompted with relevant information even before they have identified a need and have greater access to information whenever and wherever they want it, intensifying the competitive environment, particularly in price-driven retail markets such as motor and home insurance. Compounding a lack of brand loyalty in price-driven markets, today’s consumers expect exemplary customer service seamlessly delivered across a range of communication touchpoints.

Mr Misson admits that insurance products are not generally considered engaging by consumers, so the goal has been to use technology to make insurance more relevant and accessible. “The industry has learnt some valuable lessons along the way; when smartphones and apps first became widely available to consumers, the focus [of insurers] was on the technology rather than the customer need, which resulted in low adoption rates. Now we start with the customer and build the digital solution so it’s fit for purpose,” he explains.

Insurers are not just buffeted by the changing winds of digital transformation, but they will also play a role in shaping the emergent digital environment. Fundamentally, insurers provide risk-management products and services covering a wide array of needs, from life to non-life insurance and from retail to commercial insurance. A digitally connected world provides a new set of risk challenges to retail and business clients, and here insurers can play a critical role by providing new products and services to deal with data breaches, reputational damage and cybercrime, for example.5

Emerging commercial partnerships

A crucial way in which insurance companies are transforming themselves is in their commercial partnerships. Detractors may suggest that the “digitally conservative” and risk-averse insurance sector is ripe for disruption by nimble FinTech (financial technology) start-ups that lack the legacy constraints of large incumbents. However, it is more likely that incumbents introduce a digitally agile sub-brand that can, as Mr Grill says, “break all the [old] rules”. This approach can head off new market entrants and circumnavigate the barriers to digitally enabling an existing business model.

Mr Grill points to a digital business arm with the backing of a market-leading parent company that provides funding, market experience and structure. Examples include First Direct as the nimble sub-brand of HSBC in the UK, UBank as the nimble sub-brand of National Australia Bank (NAB), and giffgaff as the mobile virtual network operator using the network of the UK telecommunications company O₂. Mr Grill adds: “I think unless they break away from the ‘mother ship’, they’ll never actually get there. This is how

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other industries have gone digital very quickly, and it’s been a success—the UBank example, the giffgaff example, the First Direct example. The challenge is then about how you get the mother ship to correspond.”

Some large insurers have minimised the FinTech disruptor risk by:

- **Collaborating with FinTech start-ups.** Aviva, for example, has hosted a Start-Up Weekend and hackathons to give, as Mr Misson says, “people from within Aviva and the FinTech community the opportunity to network, collaborate and test-drive their ideas in a fast-paced, creative environment”.

- **Partnering with large technology companies.** AXA Group has partnered with Google’s Niantic Labs division, which creates mobile apps that connect people with the real world. The partnership introduces AXA’s brand into the interactive mobile game *Ingress*, which overlays a virtual world on real neighbourhoods and cities and which is played by 8m people worldwide. In announcing this partnership in December 2014, Frédéric Tardy, chief marketing and distribution officer of AXA Group, said: “Aligning our brand with the unique interactive experience in *Ingress* represents a step forward in the digitalisation of our Group and a new way for our clients to discover our brand and our agencies.”

In Germany, the multinational financial services company Allianz and the telecommunications company Deutsche Telekom have partnered to collaboratively produce “connected life” products—using mobile, “smart” (sensor-embedded and data-driven) and Internet-connected devices—for both retail and commercial clients. Announcing the partnership, Telekom board member Reinhard Clemens said: “Cutting-edge digital business areas such as connected insurance services can only be tapped into if we use the expertise of both partners. Together, we can develop service-oriented, secure offerings that neither partner could implement on their own.”

- **Creating their own innovation labs.** Setting aside a company division where market research and trends are turned into product or service concepts and developed into prototypes can inject that entrepreneurial, risk-taking and test-and-iterate culture into an insurance behemoth. Insurance innovation labs can be permanent divisions: the US insurer Allstate built its 2,000-sq ft Innovation Lab in 2006 filled with whiteboards, books, games and the latest technology gadgets and software “to engage employees in innovation”. Another US insurer, Great American Insurance Company, takes one person from six of its departments to focus on solving a particular business problem using data and technology during a six-week innovation lab.

By contrast, Allianz has partnered with the UK’s Big Innovation Centre, contributing to its open-source projects and participating in cross-sector knowledge-sharing. For Allianz, “working openly with other companies ensures we continually question our thinking, especially in current challenging times and changing customer needs.” Aviva has also taken an alternative approach, creating the InsuranceTech MeetUp Group to facilitate knowledge-sharing between entrepreneurs, developers, designers, start-up enthusiasts and insurance industry experts.
Digital adoption in the insurance sector: from ambition to reality?

CHAPTER 2 – Leveraging digital technologies

The traditional sales funnel has collapsed. Digital media have introduced multiple communication channels that are two-way rather than broadcast-limited. Peer-to-peer recommendations are still crucial but now have a magnified reach. Today’s customers are prompted on digital channels with relevant information even before they have identified a need, which has resulted in customer touchpoints (both digital and “traditional”) becoming increasingly personalised and responsive.

The EY Global Customer Insurance Survey 2014 suggested that each and every product and service should be communicated across three to four channels. The report concluded that “insurers must design, implement, integrate and promote the channels that customers want and expect—and prepare to manage the potential channel conflict that is likely to result”.12

Digital technologies intersect and cross-inform each other. Social, mobile, cloud and data analytics cannot be considered separate mediums that exist within a linear narrative. For example, social technologies (including social media platforms) tend to be cloud-based applications, available across all Internet-enabled devices, including mobile (smartphone and tablet). Social interactions online can be prompted by or supported by non-digital touchpoints, such as traditional call centres, face-to-face communications or traditional advertising.

The digitally savvy call centre
According to AXA’s Mr Murray, the traditional call centre, while evolving to streamline its interaction with digital touchpoints, remains a crucial element for insurers. “There are many people who start on the digital channel but then want to speak with somebody, and we’ve had to make that interface a very clean transfer from the digital channel back into a representative,” he explains. Some consumers prefer to ask questions via a call centre and then make the transaction on the digital channel, he adds, while others prefer to research online and then make a purchase via a traditional call centre.

Mr Murray points out that the conversion rate for business leads received via a digital channel (such as an online aggregator) and real-time linking of that lead with an outbound call centre (typically receiving that data while the lead is still on the aggregator web page) is as high as 19%. Traditional conversion rates can be less than half that, he says. “We had to strategically connect the dots between the digital world and the traditional customer access points.”

The significant access to information that insurance partners, such as credit-rating agencies, now have about potential and existing customers is transforming insurers’ customer service. Public social media messages have contributed to dozens of additional data elements, which can theoretically be used to personalise customer service. This includes making available to the customer service team any positive or negative comments that customers may have made on social media about the insurance brand or their past insurer experiences, all of which may be useful to the customer service and sales teams. Some

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organisations have introduced social media command centres, whose function varies from firm to firm and can range from digital crisis management to real-time marketing campaigns.13

The data dilemma
Insurance is a data game. Actuarial assessments of risk and uncertainty using complex systems and statistical data sets are the cornerstone of insurance underwriting. On this basis, it is unsurprising that insurers have identified big data as one of the most significant developments of the digital age.

Insurers today have access to historical data, more granular data such as flood-risk mapping, and vast, unstructured data sets that cannot be analysed using traditional data-processing applications such as emails, web pages, images, audio files, presentations and videos.

“Data is a fundamental part of this digital revolution across the insurance industry,” Aviva’s Mr Misson explains. “In the past five years the explosion of digital information and the technology used to exploit it means insurers now have vast amounts of data available to understand consumers’ requirements and behaviours; the best digital insurers will use this data to benefit consumers,” he adds.

The rise of data analytics is a key challenge for the insurance sector. According to a PwC report, Top Insurance Industry Issues 2014, the insurance sector lacks data scientists who have “extensive and well-integrated insights into human behaviour, finance, economics, technology and ... sophisticated analytics ... [and] strong communication skills”. 14

Insurers are using data from myriad sources and in myriad ways, from personalising marketing messages to more accurately matching risk-premium pricing. Flood-risk mapping data can enable insurers to provide customer guidance to prevent flood damage ahead of a forecast flood event, for example. The My Licence data
collaboration scheme between UK insurers and the Driver and Vehicle Licensing Agency (DVLA) gives insurers automatic access to a driver’s convictions just from the driving licence number; the scheme is intended to eradicate a major type of insurance fraud, with the Association of British Insurers (ABI) saying that 23% of data provided to motor insurers is incorrect.15

Data controversy
However, increased use of data can be controversial. Insurers and third parties, such as credit-rating agencies, are exploring whether social media profiles could contribute to the data set used to assess risk premiums or to determine fraudulent information. For example, a life insurance applicant who claims to be a non-smoker but who has publicly posted images on social media in which the applicant is seen smoking could be rejected by an insurer or face higher premiums than without such evidence. The technology exists, but insurers are unsure how consumers would respond.

Telematics—a technology recording a driver’s behaviour on the road—has been available via motor insurance companies for over a decade but has failed to attract a significant consumer segment. Questions have been raised over who owns the driver’s data—if the data belongs to the driver, he or she could take it to negotiate lower premiums with other insurers—and who can access it. A court order can grant police access (for example, in the UK) and could result in prosecution for driving offences recorded.16 Increased data regulation is inevitable and adds a further layer of complexity, not least because data is getting more personal.

The Internet of insurable things
Telematics is an early example of the Internet of Things (IoT)—smart, Internet-connected devices that theoretically reward insurance consumers for positive behaviour that could lower their risk level and therefore their premiums. The IoT could transform property and object-based insurance.

13 “Social Media Command Centers are Coming of Age”, Brandwatch, February 12th 2014. Available at: http://www.brandwatch.com/2014/02/social-media-command-centers-come-of-age/
For example, connected “smart” thermostats from Nest automatically notify the user of cheaper energy suppliers during installation, in effect turning a home object into a price aggregator with “push”-notification ability.\footnote{Nest, https://nest.com/uk/} This presents opportunities for the future of insurance aggregators and highlights the changing face of potential insurance partners.

Similarly, wearable technology—such as “smart” watches, glasses, jewellery or clothing that are personalised to the wearer—could transform the way in which people (and pets) are insured. FitTech devices, such as activity trackers from Fitbit, Nike (Nike+ FuelBand) and Samsung (Gear Fit), record hyper-personal data such as heart rate, calorie calculations, exercise habits, sleep patterns and GPS data, which could be invaluable to insurance companies in assessing life and health insurance, for example. Fitness tracker data has already been accepted as evidence in a US courtroom.\footnote{“Fitness tracker data submitted as evidence for first time ever in personal injury lawsuit”, The Independent, November 19th 2014. Available at: http://www.independent.co.uk/life-style/gadgets-and-tech/news/fitness-tracker-data-submitted-as-evidence-for-first-time-ever-in-personal-injury-lawsuit-9870092.html} Proponents argue that gamification apps (game-play mechanics for non-game consumer technology) using fitness data mixed with financial incentives such as lower insurance premiums could encourage healthier habits. As digital capabilities have enabled real-time marketing to emerge, so could wearables and IoT herald real-time insurance-risk pricing and customer servicing.

However, Mr Grill warns that consumers (and the insurance industry) may find it contentious to be faced with higher premiums that “punish” poor health behaviour based on data from wearable technology. Success, he says, will be in how evolution in insurance products is communicated, including being granted permission to access data. He adds: “The premium of the future will have very much a mobile, a cloud, an analytics, a social and a wearable-type component. I think consumers are itching to have their digital social life integrated with these [insurance] products—but they will only do that if there is a benefit to them.”
If the Internet age and digital technologies do indeed herald a “third industrial revolution”, the process will be progressive in a non-linear way. Insurers which succeed in embracing digital will probably do so because they want to promote truly customer-centric products and services fit for the modern, connected world, not just because they have the technical proficiency or “first-mover” advantage.

Mr Cullen of the ABI warns that because of the size and complexity of traditional insurance business models, “getting from the thinking stage to the doing stage isn’t always swift”. This increases the risk that while insurers are getting to grips with the seemingly latest digital technologies, consumers may have already moved on. For example, in the past year or so there has been a rise in the popularity of anonymous social networks, such as Whisper, Yik Yak and Secret, which promote private digital networking. Insurers face a quandary if they invest in digital areas for which there is no market by the time they are commercialised, or if they fail to invest in digital and are overtaken by competitors that do.

As the insurance sector embraces new, previously inconceivable strategic partnerships with manufacturing and technology brands, insurers must also make certain that the skill set of their workforce reflects these changing dynamics. This cannot be achieved by continuing in the traditional siloed, hierarchical business structure, and it cannot be outsourced as the responsibility of middle management. The C-suite, board of directors, shareholders and non-executive directors all share a responsibility for realising their insurance business’s digital ambitions. The pre-digital world is consigned to history; it is up to the insurance sector to make its services fit for the digitally connected world as it is today and how it may be tomorrow.
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