

Digital Transformation in Insurance

Competing as a Digital Insurer

Don't Digitize a Broken Model

Traditional Insurers are seeking stronger, more profitable relationships with their existing customers but today the interactions with policyholders revolve around renewals, annual or periodical statements and/or claims. Claims tend to be the litmus test of whether the policy sold is actually what the customer expects to receive and unfortunately a pre-cursor to churn in the market. This is common across both General and Life Insurance companies.

However, as insurance has become more competitive, Insurance companies have adopted new ways to "engage" with customers and embraced technologies that facilitate the provision of additional information, smoother customer acquisition and the enablement of self-service to empower policyholders to modify information.

Essentially, technology has been employed to facilitate the acquisition of new customers and to empower policyholders and Financial Advisors to make administrative amendments to policies. This may reduce the cost of both acquisition and some customer service enquiries, which benefits the insurer short-term but fundamentally does little for the customer. These are

all examples of digitizing processes, not digitally transforming insurance.

This may be the reason that only two Insurers are ranked in Interbrand's "Best Global Brands 2017 Rankings."

This has also given rise to the new InsurTech industry, which attracted \$1.7B investment in 2016 and is growing.

Ultimately Insurers need to re-evaluate digitizing their existing processes and rethink their entire engagement and value models to re-engineer "business as usual." A truly digital organization can attain a consistent level of operational flexibility and adaptability to deliver greater value for everyone they need to serve. Therefore, the existential question shouldn't be "How to employ technology to replicate what is currently performed?" but rather "How do I serve policyholders, financial advisers and employees better?"

As an analogy to emphasize the importance of digitizing Insurance we can compare Netflix and Blockbuster and their divergent fates. This is a clear example of the consequences of adapting — or failing to adapt — to new digitized business models. Powerful digital technologies, notably broadband and 3G, had created a fundamental shift in how consumers could rent

videos. And this was more than a channel-based move from the high street to online. It had an important knock-on effect for the back office too. Perhaps because of its bricks and mortar investment, Blockbuster steadfastly refused to develop a business model to support online streaming until it was too late (and turned down a takeover of Netflix while it was still in its infancy back in 2000). Netflix, meanwhile, was reinventing and further developing its value propositions to match evolving target markets, creating addictive communities and advocates from highly targeted data strategy with much success.

While the causes of Blockbuster's ultimate demise were multifaceted, one of the main features was an inability and unwillingness to adapt to fundamental change and disruption in the marketplace —hoping to weather the storm and continue as before. Four years after the merger approach, the powers that be at Blockbuster invested in "Total Access," a rival of Netflix. They realized just how much their marketplace was changing — but this move proved too late.

By rethinking the entire engagement and value models to re-engineer "business as usual" Insurers can focus

on initiatives to engage with customers more frequently, perhaps with health and wellness initiatives or on-demand protection products at times of increased risk, thereby, reintroducing yourselves to a new generation and demonstrating relevance.

Transformation Agenda: Five Strategic Imperatives

Insurers are no strangers to transformation. Insurers have always invested in the development of more sophisticated capabilities to improve customer service, as well as to reduce risk, lower costs and establish a competitive advantage. One could argue that “data science” originated through insurance and the advent of actuarial analysis.

Each Insurer needs to develop a clear growth strategy to deal with commoditization and the competitive landscape. They need to decide whether to lead, to follow fast, or to manage defensively while putting off change. They need to create agility and optionality to adapt to rapid change and future uncertainty. Whatever the chosen strategy, success will come from the right balance of the following imperatives:

- Customer 360
- From Products to Experiences
- Omnichannel and Multichannel Integration.
- From Consumer-Aware to Context-Aware
- Security and Fraud Detection

Customer 360

Insurance is an industry that can generate large amounts of relevant customer data: transactions, and call center interactions, new policies, top-ups, online logs and social media comments. Additionally, this data can be augmented by external data sets to provide additional information about customers.

In their customer data hubs, Insurers are aggregating every data point, from combining attrition tendencies, product and communications preferences, affinity scores and up-to-the-millisecond intelligence on digital behavior and context.

The need for a holistic view of the customer has become a priority,

especially for those processes that are customer-facing, such as cross-sell and upsell, complaint handling, service requests and so on. For both customer personalization of services and effective risk profiling, more longitudinal information about the customer has the potential to add value.

Customer data previously dispersed across the Policy Administration, Finance, CRM, and Marketing functions can now be consolidated to provide a comprehensive business intelligence and performance management application, providing users with a 360-degree view of their customers, known as their “Golden Source” for all customer data.

Hitachi Consulting’s Customer 360 solution identifies customer behavior patterns and uses predictive outcomes to enable personnel to better target their customers, increasing sales and customer satisfaction.

Client coverage analyses customer patterns and recommends whether they may be better served through other, more cost-effective, engagement channels. The ability to identify clients who are varying from expected patterns early can lead to a reduction in customer churn, or not taken up (NTU) policies allowing Insurers and brokers to proactively approach those clients and rectify the situation.

Our Customer 360 solution segments clients, analyzing historical patterns augmented with complimentary data, and then delivers new insights by employing data mining algorithms to predict customer behavior and optimize coverage in the areas of:

- Forecasting patterns of customer behavior
- Predicting cross-sell opportunities
- Identifying a customer’s propensity for cross-sell.
- Identifying a customers’ propensity to churn
- Relationship analysis — What is best way to engage with a particular client?
- Identifying which clients are better served via the medium of voice, e-commerce, Bots etc.

From Products to Experiences

A customer may have multiple product relationships with an insurer: home and

motor insurance, pension or savings product and medical Insurance. Most Insurers have attempted to create optimized relationships, but only within their product silo. This is changing as Insurers develop the ability to manage individual customer profiles that can be leveraged to create unique experiences.

A more personalized experience for customers is now a requirement. The digital environment has revealed that what truly drives loyalty is the quality of the simplified, differentiated and personalized experiences that customers have before, during and after an interaction. Their loyalty to an experience, as opposed to a company or product, is evident in several research findings:

- 65% of consumers use online channels, not primarily for price advantages, but for convenience, speed, the quality of information provided, and access to a broader range of choices.
 - 65% find “being promised one thing and delivered something else” the most frustrating experience they can have with a company.
 - 65% (nearly 80% in emerging markets) have switched at least one provider in the past year because of poor service.

Attrition, also commonly referred to as churn rate, is often the result of a poor experience. Consumers evaluate providers foremost on the experience that a company provides, more so than on the products or services. It’s time for insurers to acknowledge that loyalty is neither permanent nor under their control. Digital has confirmed the need to delight or surprise customers on an ongoing basis. Every experience makes a difference. And satisfying experiences, delivered over time, are what build long-term relationships and drive profitable growth.

Omni-channel and Multi-Channel Integration

Smartphones are making it easier for customers to “self-serve.” Insurers are responding to this by enabling better multichannel transactions: online, speakers with digital assistants, tablet and smartphone. This also requires enabling cross-channel integration, where a transaction could be started on the smartphone but finished in a broker’s office.

The multi-channel approach came to the fore several years ago, when insurers launched online platforms and encouraged customers to use call centers for their needs. The number of touch points increased, but with expansion came more complicated and siloed IT systems.

Additional channels were bolted on to legacy platforms, but many insurers have struggled to offer an integrated approach to servicing customers. As consumers ourselves, we have all experienced this fragmented experience. For example, how many times have you been offered an unwanted loan by your branch and subsequently been targeted with the same question while carrying out your online banking?

From the customer's perspective, omni-channel insurance continues to offer access to financial services across a variety of channels and introduces more consistent interactions with the insurance brand across the various touch points. The insurer is able to analyse the information feeding in from different channels so that it can build up a detailed and accurate picture of the customer's preferences and behavior.

Today's consumers are increasingly sophisticated and are accustomed to targeted offerings from companies (such as Amazon) that make relevant purchasing suggestions regardless of the device in use. So, it comes as no surprise that these same customers have come to expect similar service from their insurer.

In summary, Millennials and other digitally minded consumers are forcing financial institutions to rethink the way

they do business. These consumers want protection or coverage when and how it suits them. With omni-channel insurance, customers expect a consistent experience, whether they access services via mobile, tablet or visiting a broker in person. If the insurers don't step up and provide this omni-channel experience, plenty of other institutions, unencumbered by legacy systems and cultures, are relishing the opportunity. Hence the advent of the InsurTech.

From Consumer-Aware to Context-Aware

The rapid innovations in digital assets and channel technology have far-reaching implications for insurers, which need to adapt their offerings not only to the evolving technology but also to the corresponding shift in consumer expectations.

Reducing the cost-to-serve using context-specific intelligence is a key priority for insurers.

Armed with the awareness that mining user data is critical for a provider, the digital-centric customer of today is more open to sharing information but with the expectation that the information will be used to deliver a customized and context-aware experience. Instances of these include the location-based offers powered by multivariate testing techniques, data science algorithms and advanced data analytics.

However, a context-aware experience is not limited to location-based offers or promotions. The user now expects the mobile device to be an extension of his or her identity and personality. This presents an opportunity for providers to offer a truly intuitive and context-aware experience, using the data stored in the user's device, relationships and transaction history.

Security and Fraud Detection

Consumers love the convenience of digital but remain uneasy about the security of their electronic transactions, including deposits, passwords and logins. This leaves insurance firms with the

challenging task of delivering transaction technologies that are as battle-hardened as razor wire, and as easy to use as a butter knife. Real-time fraud alert is another critical capability requirement.

There is an opportunity to link data and analytics to benefit both parties involved as a means of meeting "Know Your Customer" (KYC) requirements linked to various regulatory anti-money-laundering laws.

Hackers are getting more ambitious, spending longer on penetration attacks and demonstrating greater sophistication, and the rewards they're reaping are larger than ever. To combat this, insurers are increasing their technology budgets aimed at innovation, encryption and security.

Summary and Next Steps

The Insurance sector is in the midst of rapid evolution driven by a sharp uptick in innovation, changing patterns in consumer consumption, and a number of strategic growth initiatives and shifts in market conditions.

New cloud, mobile and analytics technologies have both enabled and in turn been fueled by a huge influx of new providers and products, all vying to enter the insurance space. This development has contributed to an element of "unbundling" of an array of insurance and financial services, which are increasingly exposed to growing competition, offering attractive, cost-saving solutions that aim to provide better overall experiences for clients.

To survive and thrive, insurers have to innovate. A true, sustainable digital insurance business model means that the insurer optimizes its customer interactions, products, processes and data around digital technologies. Successful digital insurers are appealing to customers on the front lines and are also digitally efficient in the back office. They use mobile and digital technologies to lower the costs to serve; at the same time, these technologies are also used to enhance higher touch services.

Changing Customer Demographics: Millennials

Millennials — born between 1981 and 1996 — are both the 20th century's last generation and mankind's first truly digital one. Millennials are fast becoming an important demographic as Insurers look for growth, but their brands are unknown. This will also put pressure on Insurers to change by improving online channels.



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Over the past 20 years, Stewart has been working in the insurance space with some of the largest insurers, both in a consulting capacity and hands-on experience in architecting solutions into the industry. He has a broad appreciation of financial services and leads the insurance vertical for Hitachi Consulting.

Additionally, Stewart works closely with the InsurTech community to understand how these companies are looking to disrupt existing models. These include using deep learning trained AIs to handle the tasks of brokers, or to gain fresh insight about policy holders, improve the customer experience, create engagement models and find the right mix of policies to complete an individual's coverage.

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