

Busting the Digital myths:

Insights from our survey on
digital in the insurance industry



Busting the Digital myths

Over the last few years Digital has grown from a term rarely used outside of marketing into one of the main focuses for the insurance industry. As a result of this many insurers are now wrestling with what Digital means for them and how they can use it to deliver competitive advantage. While there is a lot of talk in the market about what insurers are doing, we wanted to understand what is happening 'behind closed doors' in firms across the industry. To achieve this we joined up with Mastek, the software company, and Insurance Times to produce a survey that would assess what the industry thinks Digital is and its significance to them. We received a great response to the survey with a range of senior industry executives sharing their views on Digital and giving us an insight in to how firms are approaching the Digital challenge.

The survey produced some fascinating results. While there is a lot that we could talk about in this report we have chosen to focus on some of the most unexpected insights, many of which cast doubt on a number of widely held assumptions around the Digital challenges facing the industry.

In this report we look at six commonly held views that we hear regularly from industry commentators, at conferences and in the trade press and outline what our survey reveals about these common market perceptions.

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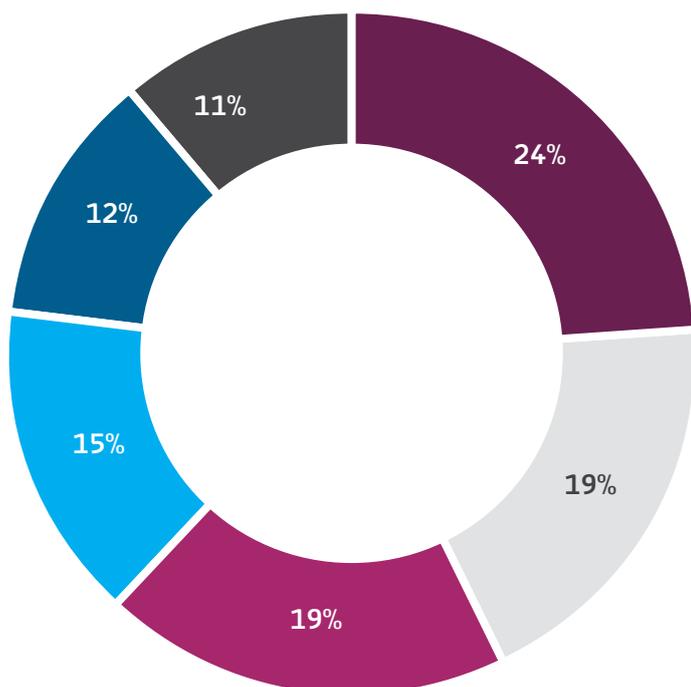
1. The Digital agenda is being driven solely in response to customer demand
2. Even a small investment in Digital will put an insurance firm ahead of its competitors
3. The greatest benefit Digital brings to the value chain is at quote and buy, making it easier for customers to buy products from insurers
4. Insurers are focusing their Digital efforts on creating mobile offerings that allow their customers to access their products on the move
5. The biggest fear in the industry is that there will be a new entrant to the market that brings pre-existing Digital capabilities and swallows up market share
6. Technology is the biggest challenge Insurers face in delivering their Digital Strategies

Myth 1 - The Digital agenda is being driven solely in response to customer demand

There is a commonly held view in the industry that the goal of a Digital agenda is to simply meet the changes in consumer demand. According to Ofcom's 2013 Communication Market Report over 50 per cent of people in the UK now own smart phones and 25 per cent own a tablet. Given the speed of technological growth it is likely that at the time of writing this report these figures are now even higher. With people using their smart phones for a range of daily tasks including chatting to friends, checking their bank accounts and even ordering dinner it's easy to see why some commentators see this as the sole driver for Digital initiatives within the insurance industry.

While customer demand is undoubtedly a significant driver for the Digital agenda our findings show that this is not the only factor that is leading firms to pursue Digital within their organisations. The findings of our survey highlight that senior executives see internal cost and efficiency drivers as major factors in the push towards Digital and an area where Digital can streamline processes and reduce costs to create benefits for both insurer and customer alike.

Which of these do you feel is an important or critically important factor driving the Digital agenda within the industry?



- Customer demand
- Internal cost drivers
- Internal operating model drivers
- Keeping pace with existing competition
- Intermediary demand
- New market entrants

Our analysis of the drivers that are leading firms to pursue Digital show that while customer demand remains the primary driver for insurance executives this is being viewed in conjunction with the internal benefits that Digital can deliver, both in terms of cost reduction and organisational efficiencies. As one respondent highlighted:

“Insurers can no longer afford the high level of acquisition costs from commissions and service agreements, when added to the reducing premiums and increasing expenses, they need to reduce overhead costs and electronic solutions can achieve this.”

While improving customer service and reducing cost are not necessarily competing objectives, these findings offer an additional perspective to the Digital challenge. They suggest that firms are not only assessing their Digital capabilities in terms of what it can do for their customer offering but also in terms of how they can use Digital to enhance processes, minimise transactional costs and ultimately reduce their combined operating ratio.

From discussions at our Digital Survey Results Round Table, it was clear that those warned about the impact of Digital on customer services need to consider that Digital is not a ‘golden bullet’, but a key component in a mature, multi-channel, model. In this model a customer has a choice of how to engage their insurer, transactionally if they want but having the option to switch channel and have more in-depth conversations if required.

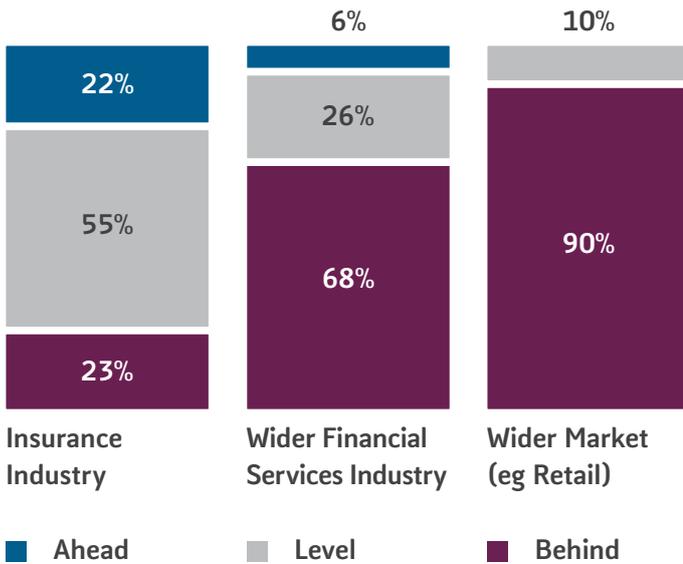
Questions for your firm:

- Has your organisation considered how it can use Digital to improve internal processes and reduce cost?
- Have you considered how inflight efficiency initiatives can leverage Digital to deliver greater business benefit?
- Has your organisation created a multi-channel strategy where Digital is included as a key, but not the only, component?

Myth 2 - Even a small investment in Digital will put an insurer ahead of its competitors in the market

Within Financial Services, banking is viewed as the bastion of Digital innovation with insurers seen as a long way behind their banking peers. The results of our survey lend support to this view with 68 per cent of respondents agreeing with this statement. This gap becomes even greater when comparing insurance to the wider market. When asked where insurance sits compared to other industries such as retail this figure increased to 90 per cent.

Where Do You Feel You Are Versus The Market In The Provision Of Digital Services?

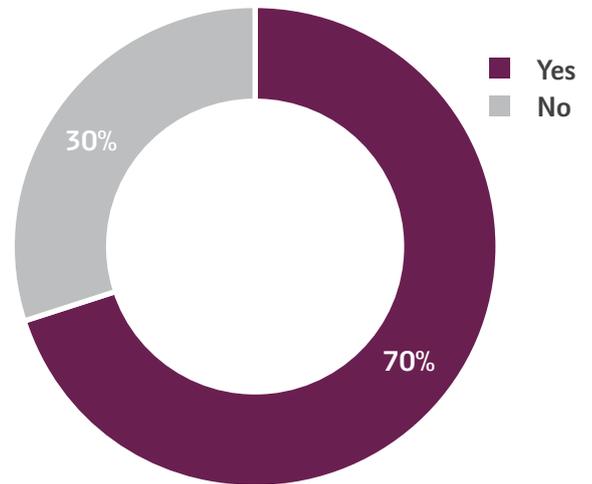


This widely accepted view – that insurance is behind the Digital curve – leads many in the industry to conclude that Digital is not a high priority for the industry as a whole and therefore a lack of investment in this area is not a competitive disadvantage.

However, our survey highlighted that although insurers may be behind their banking peers 70 per cent of insurance firms have developed a Digital strategy and are currently looking at what Digital means for them. When coupled with the fact that 75 per cent of respondents see themselves as either ahead of or level with their peers this would suggest that insurance firms have woken up to Digital. Insurers are now actively considering their approach to Digital and those that are not looking at how they can leverage Digital are likely to be significantly behind their peers in the industry. As one respondent emphasised: “This [Digital] is a number one business priority to drive us into the next era of insurance”.

For those who thought Digital was something they could look at next year, our findings show that Digital is an issue that has already arrived and one that senior executives need to focus on now in order to remain competitive over the coming five years.

Does Your Organisation Have a Digital Strategy?



Our discussions with insurers have highlighted a number of areas of great strategic Digital opportunity (such as home telematics) but they have emphasised that this must be balanced with a need to keep focused on getting the basics right and ‘learning to walk before you run’. Many attendees at our Digital Survey Results Round Table expressed the need for their Digital strategies to address Digital ‘hygiene factors’ such as online documentation, while not losing sight of the ‘innovations’ which could potentially deliver significant competitive advantage.

Questions for your firm:

- How advanced is your organisation’s Digital strategy?
- Does your Digital Strategy have Board level sponsorship and buy in?
- Does your organisation have a clear understanding of how it will translate its Digital strategy into viable Digital initiatives that can be executed in a joined up manner to deliver the business strategy?

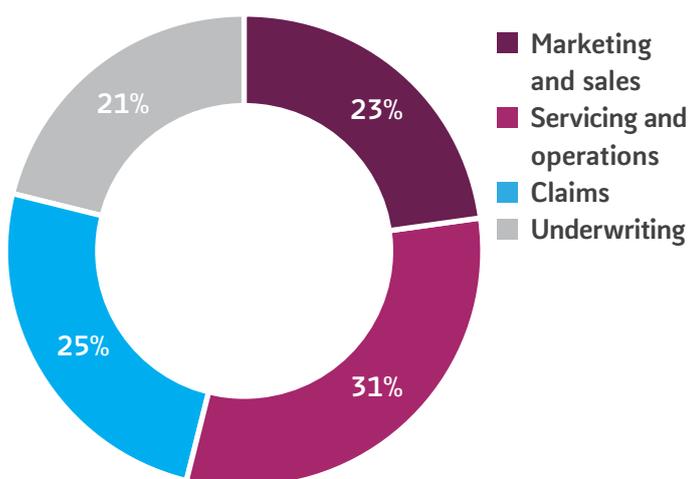
Myth 3 – The greatest benefit Digital brings to the value chain is at quote and buy, making it easier for customers to buy products from insurers

A lot has been said about Digital offering insurers the chance to greatly improve the front end of the customer life cycle. Many insurers have taken this on board and are currently looking at how they can leverage Digital to improve their marketing, speed up their quote process and ultimately increase sales conversion rates. This is not surprising given that marketing have been championing Digital in insurance organisations with most in the business waiting to see

tangible results before they jump on board. While this evolution is commonly understood, what senior executives at the top of these organisations see as the key opportunities is much less clear.

Our survey found that while marketing and sales continue to be a significant area of interest for senior executives it is actually servicing and operations where they see the greatest opportunities. While not the traditional start point for Digital this would seem to correlate with our respondents' view that customer satisfaction along with cost and efficiency savings are the most important factors driving the Digital agenda at the moment. This raises interesting questions about where firms should start with Digital as well as who should ultimately own it within the organisation. With Digital already at the top of marketing's agenda, those in other areas of the business should now also be looking at what it means to them and how they can leverage the benefit. It is also true to say that a lot of money has been spent on web-enabling the Quote and Buy process (especially within General Insurance), but that far less has been spent to date on servicing, operations, claims and underwriting so this is a natural area of opportunity for insurers over the coming years.

Where do you see the wider opportunities for your business through investment in 'Digital'?



Questions for your firm:

- Who is ultimately responsible for delivering the Digital strategy within your organisation?
- Where are you focusing your Digital initiatives at the moment and is there enough focus on servicing and operations?

Myth 4 – Insurers are focusing their Digital efforts on creating mobile offerings that allow their customers to access their products on the move and via social media

The rise in smartphones and the use of apps has led firms across all sectors to look at how they can leverage this technology to enhance the customer experience and make it easier for the customer to buy their products. It is therefore no surprise that a popular topic at industry conferences is how insurers can utilise apps and social media to help grow new business and retain current customers. Looking at the banking industry, apps have become one of the key differentiators for firms in the highly commoditised personal current account market.

The idea of being able to buy home, motor or even protection products through an app has certainly caught the imagination of the industry. We have already seen a number of insurers re-leasing their own apps, enabling customers to carry out a range of insurance activities from getting a quote to notifying a claim.

Although apps seem to be one of the key differentiators for the banking industry, our survey highlighted that it is not a top priority for insurance executives. Our results showed that developing a mobile capability sits a long way behind ensuring an effective online offering for insurance firms across the industry. When asked specifically about mobile capabilities insurers' primary concern was ensuring that their websites are optimised for mobile as opposed to the creation of a bespoke mobile app for their products. In addition to this, while mobile capabilities came above Big Data as an overall priority, when we assessed the detailed responses we found that many respondents felt that developing Big Data analytics capabilities was more important than producing a mobile app.

Given how customers actually buy insurance and the regulatory requirements around the sales process this is not as surprising as it may first seem. Although the idea of accessing insurance through an app certainly sounds appealing, the number of times customers would actually interact with their insurer through the app (usually 2 – 3 times a year at most) makes the viability of an app questionable. In a world where 100s of apps are battling for space on a person's smartphone at any one time it is highly unlikely that an insurance app would manage to last from one renewal to the next.

This point only further emphasises the need for Digital to be a key component of a wider multi-channel offering. From our Digital Survey Results Round Table it would seem that social media is another key area that firms are wrestling with. A number of attendees highlighted that there was a significant gap between the prominence of social media as a Digital channel and its usefulness to customers. Attendees suggested that it was the channel least likely to be understood by Insurance executives and that few knew how to utilise it to deliver business benefit.

The question for insurers therefore is how to offer the customer the effective mobile offering that they have come to expect without developing a proprietary app. A lot has been made of making the entire product life cycle Digital and firms must look at their own products and customer base to determine whether this will deliver the best experience for their customer. Firms should assess what their clients want at each step in the product life cycle and ensure that they can offer it. While many customers are very happy buying insurance products online, there are those that value a different approach for servicing or claims where some customers appreciate being able to deal with a live agent.

Questions for your firm:

- How is your organisation approaching the mobile challenge?
- Have you assessed how you can leverage your current online platform to deliver an effective mobile offering?
- Have you assessed what impact Digital will have across different products and points in the product life cycle?

Myth 5 – The biggest fear in the industry is that there will be a new entrant to the market that brings pre-existing Digital capabilities and swallows up market share

With the likes of Apple, Google and Amazon slowly entering more and more industry verticals, there are many in the insurance industry who fear that it is only a matter of time before one of these firms makes a major push in to the insurance industry. Indeed, Google has already shown its intent to enter the market with the purchase of BeatThatQuote.com in 2012.

The concern that one of these large players (or a new challenger brand) will enter the industry with a ready-made Digital offering that will revolutionise the industry is one that is often mooted. Although Google's initial purchase has so far not resulted in the seismic shift that was expected, many in the industry are still concerned by the potential threat.

Even with this potential threat just over the horizon our survey found that this is actually the least important factor for insurers when considering whether to embrace Digital. We found that insurers were more concerned with being outpaced by competitors than they were by new entrants. Although we can't say the exact reason for this, in a highly regulated market that trades on longevity the barriers to entry may simply be too high for any new entrant to make a significant impact in the short term.

Questions for your firm:

- Do you understand what opportunities and threats Digital presents to your business?
- Have you considered what impact a new, Digital, entrant may have on your lines of business?

Myth 6 – Technology is the biggest challenge Insurers face in delivering their Digital Strategies

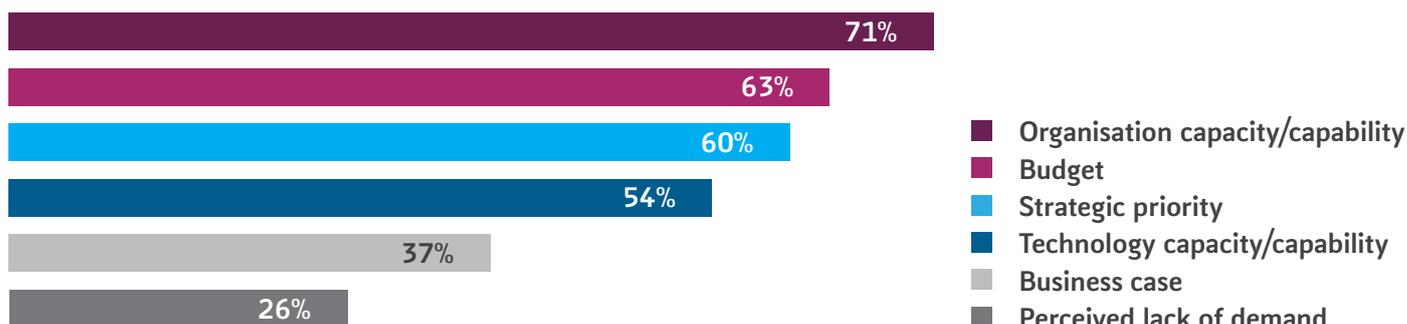
Legacy IT has long been seen as a key challenge for the insurance industry. Acquisitions coupled with under investment have left many insurers with poorly performing IT estates based on out of date technology. While insurers have been able to manage with these poorly performing legacy estates until now, the challenge that Digital presents is considered by many to be the 'straw that breaks the camel's back'.

In response, many of the large insurance software vendors have created fully functioning Digital offerings that enable insurers to integrate their entire mobile, online and more traditional sales and servicing channels on to one platform. Many of these providers are also starting to offer additional tools such as sales, servicing and telematics apps putting their software customers firmly at the front of the Digital pack.

Although the senior executives that we surveyed agreed that technology was definitely a blocker to Digital innovation, we found that it was certainly not the biggest. Out of the six blockers that we asked about, technological capability came forth.

The most significant blocker was a lack of in-house capacity and capability to be able to effectively deliver the Digital agenda. This was followed by the budget for and the strategic importance of Digital which were seen as blockers 2 and 3. Together, these three paint a very interesting picture of an industry that wants to develop its Digital capabilities but is constrained due to

What is stopping you from progressing your Digital agenda further or faster?



competing strategic objectives which limit the budget allocated to Digital and ultimately the talent a firm can hire.

Focusing on organisational capability alone these findings suggest that the industry may need to look further afield to secure the necessary skills that help deliver the Digital agenda. Indeed, for those firms that have already started along this journey the results have been positive. For those that haven't, they will have to contend with the challenge of identifying the skills that they need and then securing the necessary talent from the highly competitive Digital marketplace, competing with the big banks and technology firms to do so.

Questions

- Does your organisation understand the skills that it requires to effectively deliver its Digital strategy?
- Has your organisation expanded its search for Digital talent outside of insurance?
- Is your Digital budget, capability and capacity aligned to your Digital strategy, overall corporate strategy and current change priorities?

Conclusion

In dispelling a number of common industry myths about Digital our results confirm that the industry has very much woken up to the seismic shift that Digital is going to bring to insurance. Our results confirm that insurance executives' view of the Digital challenges has certainly evolved. It has moved from the traditional view that Digital is there to drive marketing and sales to a place where Digital is seen a driver for growth, increased customer satisfaction and increased efficiency across

the entire organisation. This appreciation of Digital is only going to accelerate further over the coming years as exposure to the potential of Digital from other industries grows and insurance companies increase the pace of their Digital development.

In the face of a myriad of competing strategic objectives it would seem that Digital is slowly getting the attention it deserves within the insurance industry. While our results found that Digital was not the top strategic priority for any of those who were surveyed, it was in the top three for 30 per cent and top ten for a further 60 per cent of respondents. Given the strategic pressures around regulation, cost cutting and growth it is encouraging that insurers are finding time to look at Digital. To those that may not be thinking about Digital due to other priorities it is worth remembering that Digital is not just an end in itself. Digital is a tool and an enabler that will help deliver all of an insurer's strategic objectives and should be treated as such. However, this must be tempered with an understanding that Digital is only as effective as the rest of the firm's wider, customer-focused, multi-channel model.

Overall, it is safe to say that digital has firmly arrived in the insurance industry and those that do not act now are likely to be left behind; if not by Google or Apple then by those insurance firms that they have competed with for years.



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