

The new prerogatives for digital transformation in insurance

New technology enables insurers to drive rapid change and generate value sooner

Insurers have been talking about digital transformation in the insurance industry for a decade or more but it's still a relevant - even urgent - topic. Yes, many processes have been digitized and automated and some insurers have replatformed core systems. But true breakthrough innovations have been relatively rare. Often, great ideas never advance beyond the proof-of-concept phase.

Because most technology estates feature both modern and legacy systems - and typically insufficient use of cloud-based tools - insurers may not be able to move quickly and nimbly in keeping up with evolving customer needs. Overhauling legacy systems is simply too time-consuming and too expensive for most insurers to undertake. However, every insurer is under pressure to become digital-first and technology-led in establishing lean, low-cost operations. So what's the best way forward?

For senior business leaders, the question is how to make sure those investments deliver optimal returns. In our experience, the difference maker for successful, tech-driven transformation is in the why and how. The most effective transformations are motivated by a clear understanding of customer needs - that's the why. The how is about cultivating an ability to change incrementally and continually, because no insurers can stand still.

This article will highlight leading practices (covering both technology and talent), for driving transformation that delivers against essential business objectives and specific outcomes. It will also explore the question whether "greenfield" or "newco" approaches to transformation are preferable to optimizing an existing business.

Driving to Return on investment:

More insurance executives have come to recognise that transformation equates to more than simply deploying technology. After all, anyone can buy technology. And insurers are definitely buying technology.

Gartner research has found that European insurers' IT budgets have been increasing at a compound annual growth rate of 11.5% since 2020, with the biggest jumps in infrastructure and application implementation and managed services. Software spending has grown even more, 12.3%, in the same time period.

Technology priorities for insurers:

So what technology are insurers buying? An ISG survey found that 77% are focused on developing digital channels. EY's Tech Horizon survey found that a majority of insurers are looking to data and analytics to provide the most value.

55% proportion of European insurance executives who believe data and analytics will deliver the most value in the next two years.

Source: EY Tech Horizon Survey

Focusing on the customer

Successful transformations start with a focus on customer needs and preferences and the elimination of friction points that can frustrate customers. That's addition by subtraction. Consider how application processes can be made smarter and faster by chatbots that pre-fill forms and predictive analytics that streamline applications down to just a few questions. For the vast majority of policies in personal lines, underwriting should be fully automated.

In claims, chatbots can be used for timely notification of loss and status updates. Here again, automation must be the rule, because it helps to increase the speed of claims management, which is what customers value most. However, insurers must strike a balance by providing options for both intuitive self-service and access to human support when necessary. Empathetic representatives can help customers navigate complex or emotionally difficult claims.

Co-creating with customers

Customer feedback should be captured constantly via surveys, focus groups and other means. Those inputs can help prioritize areas for improvement and identify new features that will increase customer loyalty and reduce churn.

Ideally, customers should be viewed not just as constituents but as co-creators of new solutions. New offerings, such as usage-based policies and flexible coverage for workers in the gig economy should reflect how people actually live and work today. Holistic offerings that merge life and health insurance with personal coverage and retirement planning can help promote physical and financial wellness alike. There's no doubt insurance can help people lead happier, healthier and more confident lives, but the entire business has to be transformed

to deliver such outcomes. This is the equation for successful digital transformation today: creating value by combining high degrees of efficiency via automation with differentiating, high-touch experiences that customers appreciate. Put another way, automation makes it possible to enrich offerings, and personalise experiences at scale and on a repeatable basis.

To make that vision a reality, insurers should seek to design processes around customer needs and, where possible, based on direct customer inputs. Experience design teams should examine customer journeys to devise plans to optimize each interaction.

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Mastering the technology: new tools and development approaches

In the past, many transformation programs were oriented toward a target end-state. Today, however, continuous advances in technology place a premium on an organizational capacity for agility, connectivity and ongoing change. Innovation often happens via new technologies (e.g., the cloud, generative AI) and collaboration with new partners.

Optimized infrastructures feature flexible, cloud-based architectures to handle massive data flows and to add and subtract components as technology improves over time. The key is to be creative in working around the constraints of legacy technology. Some insurers struggle to implement new tools from InsurTechs or plug into third-party data streams largely because core systems make it too difficult.

At EY, we developed the Nexus for Insurance platform to make it easier for insurers to explore new technology and adopt those that make the most sense for their business. EY Nexus is designed to promote efficient and iterative innovation, from new product development to the improvement of core functions based on new tools.

The cloud-based platform features APIs and microservices for secure connectivity and easier integration with solutions that our industry professionals and technologies have vetted carefully in creating a breed solution marketplace that's currently being used by 52 insurance companies around the world. EY Nexus promotes rapid prototyping, iteration on minimally viable products, and agile working methods - all of those capabilities can move new solutions out of the sandbox and into market sooner. Ultimately, that means insurers can generate higher returns on transformation investments.

Solving the "New Co" dilemma:

In seeking transformation, many insurers face the to "greenfield-or-not" dilemma - that is, to build out entirely new companies or to reboot existing business. Each approach offers advantages. EY Nexus gives insurers the capabilities they need to succeed along either path. Tools for rapid prototyping, proven and process templates for core operations, and product modules make it possible to take entirely new brands into market in a matter of months. But our platform is also compatible with most core insurance systems, so carriers can extend their life without the substantial cost and risk of major upgrades.

Preparing the organization: right people working in the right ways

While technology is essential for digital transformation in insurance, it's not the only factor. Insurers also need talent. Risk engineering, risk management, underwriting and claims remain the critical skills that merit internal investment in professional development, well defined career paths and an attractive employee experience.

Prioritizing key skills:

The other critical talent insurers need - including data scientists, cloud application developers, experience designers, Agile specialists - is scarce (and expensive) to engage. That's why they should seek creative ways to access it. The goal should be talent liquidity, or the ability to access talent and move it around the business (as needs and opportunities dictate). Centers of excellence,

innovation labs and cross-functional teams around specific customer outcomes can be effective ways to manage talent in line with shifting business needs.

Creative sourcing arrangements with partners can also help. With managed services spending on the rise, service level agreements and incentives should be aligned to key business outcomes. Certainly, insurers should look for ways to use managed services agreements to expand their key capabilities and generate more value from their own tech investments. Greater leadership emphasis on collaboration can help insurers take advantage of the massive upside of ecosystems and move beyond the limits of "not invented here" thinking.

Bottom line: transforming on multiple dimensions

Digital transformation has come to be regarded as an organizational capability, rather than a one-off project with a fixed objective and timeline. This ability to continuously drive change and innovation must be baked into the culture, rather than a stand-alone initiative. At the same time, insurers must be sure to build strong and specific business cases for their tech investments and define how exactly they'll realize returns on their investments through improved performance, lower costs or other key metrics.

This reality of permanent transformation requires new tech deployments to deliver specific and sustainable outcomes. With insight into customer preferences, insurers can use platform technology and Agile development models to upgrade customer experiences as new tech become available. That's how leaders can gain confidence that digital transformation delivers value in both the immediate and longer terms.

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