



Digital Insurance - The New Normal

Emerging digital technology will disrupt the insurance industry like no other innovation has to date. In fact, it already is.

Why?

Because consumer-focused businesses are experiencing unprecedented demands for faster, better and less costly services.

And because the market variety for customers to choose from is greater than it's even been, consumer expectations are at an all-time high.

In this competitive marketplace, insurers must adapt to the latest in available technology in order to survive. But as many insurance companies know, expanding digital processes presents challenges and opportunities in equal measure.

Insurance executives realise the need to examine and reassess their operating models in light of new digital capabilities and the expectations that come along with those developments. New entrants, with no ties to legacy software systems, are coming into the market with the latest technology, rendering old technologies once common to the industry obsolete. In other words, those who are willing to innovate and evolve with the digital age, are pioneering the next wave of opportunity within the insurance industry.¹

79% of insurance companies say they are "not setting the base-line" for digital or are "still learning." ¹

So where are most insurers now? What are their ambitions for moving into the digital insurance age (other than keeping afloat and continuing to grow business)? What is stopping them? And most importantly, what steps can they take to leverage the expansion of technology to support their thriving business? Let's take a look.

Defining Digital Insurance

Before we examine Digital Insurance in any depth, let's take a moment to clarify what it is by starting with a comparative definition. Celent states that:

"One insurance offering is more digital than another offering if a higher proportion of the information involved remains digitised over time."²

In Celent's definition, the factor that distinguishes a digital insurance offering is whether or not the data is digitised. The digitisation of data is crucial in order to allow insurers to manipulate, interrogate and process data using analytical tools to gain further insight and business intelligence.

This definition underscores what's known as the digital continuum in insurance. Right now, we can find real-life examples within insurance companies' operating systems that reside along that continuum, ranging from the non-digital to the extremely digital.

On one end, we have fully paper-based operations, with face-to-face sales, handwritten forms, traditional letters and phone calls to real people.

Further along the digital continuum, we find mid-range use of digital technologies, which may include back office core record systems and automated ratings. Most insurance companies today have moved beyond this level and incorporate basic use of web-based technology, such as sales websites aimed directly at consumers, or at least at the agents.

Companies at this level may also provide some simple online policy servicing transactions and tend to engage in digital marketing and even electronic messaging. While now a standard for most companies, this level of digital engagement is actually quite rudimentary in today's 24/7, mobile, social media savvy, consumer-oriented world.

A few intrepid insurers have moved on to an advanced digital operation, encompassing advice and guidance delivered through online digital agents, or robo-advisors driven by algorithms. These insurance companies integrate digitally with third-party carriers to create a broader ecosystem, which enables a seamless network of insurance services to be provided through a variety of digital channels, including mobile.

The general insurance sector tends to make use of variable ratings based on dynamic risk information supplied through such innovations as real-time telematics. Insurers at this level are characterised by very low touch operations where access is routinely achieved via web or mobile devices, and human contact is minimal.

And finally, at the most advanced end of the digital continuum, we have the extreme digital insurance operations, which include one-touch sales fulfilment, no-touch claims registration, and handling, where paper forms are simply never seen. There are some interesting, real life examples of these processes, which we will look at in more detail later.

As we can see, digital insurance cannot be relegated to one specific definition but exists on a fluid continuum, and by the nature of digital development, will continue to dynamically shift as technology continually advances. What can be discerned is that the industry is markedly moving in a digital direction.³

It is estimated that insurance sold through digital channels in Europe will reach €25 billion annually by 2020, more than double the 2012 value of €12 billion.³

The Case for Digital

So why should the industry embrace this digital movement?

Because digital technologies can help a business become more connected, accessible, efficient and flexible. Effective use of digital tools can enable companies to run with smoother processes, clearer communication, and to improve overall performance. This is true across all parties in the insurance industry; brokers, insurers, risk managers, claims service providers and even Regulatory Bodies. It can help to:

- Significantly improve business efficiencies by automating routine functions and simplifying complex functions through the use of driven algorithms. Analytics based on deep digital data can provide internal staff with powerful resources to help with decision-making. Simply reducing paper-work can allow staff to operate more fluidly and productively.
- Attract and retain customers by creating a differentiator that sets your business apart in its field. Customers may choose to renew policies, repeat business or simply seek out your business over another because you enhance their personal experience.
- Meet your customer's multi-device demands. Statistics show that 60% of people are using at least two devices every day and 25% use three devices.⁴ These users are shown to be researching on their mobile, such as exploring broker options or comparing policy quotes but completing the task on a desktop. With audiences becoming increasingly familiar with multiple connected devices, accessibility should be key to any service offering.
- Improving the on-the-go customer experience, which is essential to maximising conversion. Statistics show that 62% of companies that designed a website specifically for mobile had increased sales.⁴
- Personalise your offerings. With an expanse of data on your customers, their preferences, lifestyle, history of choices, etc., you can tailor your products and services to suit individual needs and aspirations.
- Strategically integrate with existing legacy systems and internal workflow systems. The introduction of such technology may not be as disruptive as first anticipated, and could actually utilize the years of work and information accumulated in legacy systems.

Most insurance professionals recognise the huge changes that are imminent and driven by the rise of digital capabilities. They believe that the next five years will see a fundamental change in the business models deployed by successful insurers. If today's insurers are to remain successful they will have to fully embrace these new norms. If they do not, then new entrants who maintain a focus on the consumer and are comfortable with digital methods will be able to invade the life insurance sector with innovative modes of engagement and collaboration that insurers have traditionally shied away from or stumbled over in the past.

*Generation D is defined as the **generation** of people that have grown up with easy access to **digital** information and communication technologies.⁵*

The shift to digital is inevitable for insurers, and some in the industry are investing heavily in digital transformation. The "digital generation", or Generation D, is permanently connected and accustomed to purchasing books, electronic devices, music and travel online. They will expect no less from their insurance providers.⁵

There are already a few 'extreme digital' insurance operations in existence. **BIMA** is an interesting development in emerging markets.

Case Study – BIMA

BIMA is the leading emerging market insurance player, using mobile technology to bring insurance to developing countries, where insurance penetration is low. In fact, 90% of BIMA's customer base are accessing insurance for the first time, through their mobile phone provider.

Traditionally, insurers link insurance with bank accounts. Policyholders use this to pay for insurance and to receive payment for claims made. BIMA discovered that although insurance penetration was only about 3%, mobile penetration was 70%. Partnering with local telecom companies, BIMA enables low-income consumers to purchase insurance directly through their mobile phone credit. Subscribers make small daily payments and can cancel their contract whenever they like. BIMA partners also assist in paying a claimant when a claim is made.

Francis Ahiale, from Adenta, Ghana, pays for personal accident insurance using micro-instalments of £1 a month, over his mobile phone. He recently had an accident at work, resulting in the loss of his left eye. After sending a doctor's report to the insurance company's office in Accra to verify the claim, Francis received a pay-out of £450. This payment covered his hospital treatment and helped him financially while he couldn't work due to his injury.

BIMA is a great example of how an insurer imagined a different way of providing insurance coverage to an otherwise unreachable market sector.

While most insurers recognise the need to take action, many are still not investing sufficiently, both from a financial and a strategic perspective. Because the digital trend will require significant transformation, gradual incremental evolution may not be sufficient. Insurers will need to clearly establish their ambitions and be prepared to invest in new and innovative business models that will facilitate their success.

Insurers that remain entrenched in cultural norms of how things are done today will struggle to embrace, integrate and take advantage of the best of what digital has to offer, and are therefore at risk of falling behind competitors. Not only will those unwilling to shift be hindered by cumbersome and inflexible legacy technology, they will lose access to an evolving toolkit that could assist their growth. Digital insurance requires a new mindset that puts the digital business model at the centre of its thinking. It is not merely an enabler to enhance current models of engagement.

Changing the mindset among insurers, however, could yet prove the most difficult challenge. In 2014 E&Y found that less than half of life insurers believed failure to embrace digital will cause customers to leave. That level of complacency must surely change if the incumbents in the industry are not to be superseded by innovative organisations that already know **digital is the new normal**.⁶