



KEY SHIFTS MARK THE PATH TO DIGITAL INSURANCE

SUMMARY

Empowered consumers, innovative competitors and new technologies are bringing massive changes to the insurance industry. Instead of distributing products through agents, insurers must now create products that inspire customer demand, and those products must be simple and flexible enough for customers to evaluate and purchase online. Insurers that adopt more diverse information sources and deeper analytics will develop a more nuanced view of customers, channels and products. They'll also better understand how to service older platforms and gain control over a vast IT estate that must keep pace with the business.

Like watching storm clouds gather on the horizon, insurers have seen change building over the last few years. The same advances in technology that upended music, publishing and other industries are pushing their way forcefully into the insurance space. Consumers, who've come to expect one-click ordering and instant fulfillment, are looking for the same service from insurers. And competitors, emboldened by the magnitude of change, are entering from many different industries — financial, retail, automotive and more. Regulation and a conservative business approach have caused insurers to adjust slowly, but outside forces are now bringing to bear the full effects of this transformation-in-waiting for the insurance industry.

The shifts that are now taking place affect every aspect of the industry value chain. In the near future, the insurance marketplace will look nothing like the one of the past. This paper examines the drivers of change, the shifts that are occurring and what insurance companies can do to begin their journey to a digital future.

Why business-as-usual, isn't

Much of what's happening in the industry today wasn't feasible, or widely adopted, just a few years ago. Web-scale technologies, developed by companies such as Google and Amazon, were exotic. Consumers were just becoming comfortable with cellphones that ran "apps." Content generation by social media users was beginning to ramp up.

Today, that picture looks completely different. Buying habits continue to be reshaped, and expectations raised, by the smart, mobile devices consumers carry in their pockets, as well as new and

innovative business models such as those that tap into the "sharing economy." Consumers of all ages have become comfortable with electronic transactions, and they expect ease and immediacy in everything they do online.

Just as important, advances in network, platform and big data technologies are making inexpensive, massive computing resources available to any company. These tools of the digital economy — largely based on open source software and hardware — give new digital insurance competitors the ability to rapidly try new products, instantly market and scale those that work and quickly eliminate those that don't.

In this environment, insurance companies that insist on hewing to traditional business models will find themselves marginalized. A policy-centric, siloed business approach isn't fast, isn't flexible and won't be profitable enough to effectively compete. But it's not that insurers don't recognize the need to change; the challenge is in reaching today's clients with a more personalized, digital experience and a broader, more flexible range of products that can be tailored to meet specific needs.

While there seems to be no end to the changes and challenges insurers and their employees face, there is good news. Companies that understand and respond to changes in the industry have the opportunity to capture new growth opportunities, control infrastructure costs and lay the foundation for a more profitable future as a digital insurance company. The shift to digital insurance is a transformational journey that will ultimately lead the insurance industry to redefine its basic value proposition from one of simple indemnification of loss to one of education, prevention and continuous value.

From policy-centric to customer-centric

Traditionally, insurers have resided in the background of consumers' lives, offering security in the knowledge that when trouble strikes, customers have a resource to call on. Innovation tended to happen from the inside out, as new products and lines of business were

The use of IoT in insurance will become
standard by 2018.
 Insurers will have **no choice but to adopt IoT-based solutions** to remain competitive.

Consistent customer engagement through digital means goes a long way toward helping insurers maintain share of mind in the marketplace and ward off competitive threats.

developed and sold through agents who put customers into the product that best fit their needs. This policy-centric point of view profited insurers for decades.

As a result of this behind-the-scenes approach, customers have usually had just one of three reasons to think about insurance: to buy a plan, to pay the premiums or to make a claim. For the rest of the time, insurers have remained largely out of sight — and out of mind. (Except, perhaps, for a birthday card or next-year calendar sent by a local agent.) In hindsight, the time between those three events represented a missed opportunity for companies to connect with customers. And in the digital age, those long periods of no contact became an easy entry point for digital insurance competitors.

Insurers that shift from a policy-centric way of working to a customer-centric view will find a wealth of opportunities to connect with customers. They can offer advice, educate and find ways to help

customers reduce risk (which, in return, helps the companies). And by offering value centered on customer needs, they will establish ongoing and deeper relationships that prove to be longer lasting and more valuable.

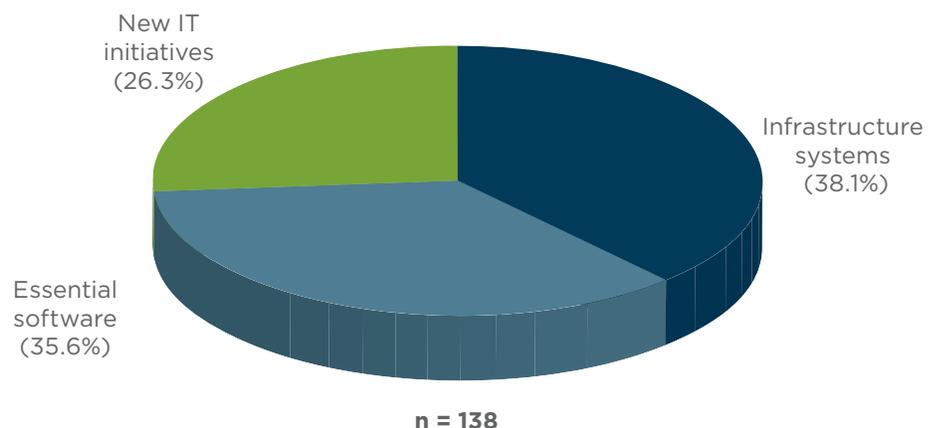
This shift is crucial as insurers move from an indemnification-based value proposition to one of continuous value. Indeed, the concept of a core protection product has become commoditized, creating another entry for new competitors. But consistent customer engagement through digital channels goes a long way toward helping insurers maintain share of mind in the marketplace and ward off competitive threats.

The digital insurance experience is far less about dictating terms to customers and selling them a product and more about anticipating their needs, developing products that encourage them to buy and providing them with a branded experience. And the key to offering this value-added service is something insurers are already familiar with: data.

From data capture to data analytics

So what's new about data? Insurers have been collecting and using it for years. The difference today is in the growing range of data types and sources, coupled with the use of advanced analytics. The strategic aggregation and analysis of data promises to alter every part of the industry value chain.

INSURANCE INDUSTRY IT SPEND BY FUNCTION



By 2020, **60%** of information delivered to decision makers will be considered by them always actionable, **doubling** the rate from the 2015 level.

Source: IDC FutureScape: Worldwide Big Data and Analytics 2016 Predictions, November 2015

Data now drives the development of products, distribution, and marketing and sales materials as insurers gain a 360-degree view of their customers. By using existing data from systems of record, plus data from social media channels and other external sources, insurers can develop a more complete picture of customers, understand who their best customers are, gain insight into what motivates them and more. Data-driven product development helps digital insurance companies bring new products to market faster and with greater chances of success. And online customer interaction opens up broader sales channels, as insurers can provide multiple products through client interaction following the “next click,” “next to” practice, which presents the customer with cross- or up-sell products.

A growing abundance of real-time data offers the potential to change pricing strategy altogether in a way that benefits the digital insurance company and rewards the customer. For instance, auto insurers can use telematics data to understand a driver’s actual driving habits in a way that’s far more insightful than analyzing his or her credit score and demographic data. Health insurers can get a far clearer picture of an individual’s risks,

based on lifestyle data collected from wearable devices, and offer incentives for positive behavioral changes.

Data also hold the key to improvements in fraud detection and risk management. Insights on claims payments, drawn from multiple sources, can help insurers identify potential fraud before it happens, instead of reacting to misrepresented claims after the fact.

Insurers already have the skills needed to make this shift, to become more analytical and predictive and better leverage big data. They know how to integrate external sources of data and analyze that data in sophisticated ways — that’s integral to pricing risk, something insurers know how to do well. So they aren’t starting from square one. They simply need to equip themselves with more data, better data and new tools to accept, manage and analyze it.

From manual to digital

Paper has been making a long, slow exit from the industry, largely due to regulatory requirements. As printed materials phase out, a greater share of products, services and processes make the transition from manual to automated methods. Even when records remain in

Sharing Data — A Creative Response to Emerging Threats

New digital-only players threaten to disrupt the insurance industry. These companies have the potential to provide value to consumers that traditional insurers will find hard to match. The situation is comparable to TV networks competing with Netflix, travel agencies competing with Expedia and retailers competing with Amazon.

To respond to emerging digital threats, insurers need to embrace modern platforms and new ways of dealing with data, which also allows for product innovations such as dynamic pricing strategies.

Modern platforms can be used to better access and share data, a strategy that will allow traditional insurers to thrive in a market with new emerging rivals. If companies can effectively share data, they can join forces with new entrants and form digital ecosystems of innovation. Insurers can realize significant competitive advantage by cultivating partner ecosystems that allow them to deliver new tools and services to consumers.

This model goes beyond the traditional approach of offering preferred vendor relationships to customers. It allows insurers to

add value to core products and policies by helping policyholders, for example, with the purchase of a new car or home.

The digital ecosystem is an innovation that many customers are eager to embrace. Deloitte industry research (2015) indicates that 50 percent of consumers would be willing to provide additional personal and lifestyle information to their insurers in exchange for better services.

Sharing data through digital ecosystems will make everyone involved more customer-centric. It will allow larger carriers to focus on more comprehensive customer services and smaller carriers to focus on specialty products and niche markets. It will allow insurance companies to form partnerships with nontraditional companies and become involved in other aspects of customers’ lives.

Regardless of size or market focus, the shift to modern platforms and data sharing is an effective way to fend off emerging competitive threats and stay relevant.

— Jerry Overton, Data Scientist, CSC Distinguished Engineer

print, more sophisticated document processing tools are helping insurers automate paper-based processes to improve speed, immediacy and quality.

A truly digital customer experience requires products that are easy to comprehend and simple enough to enable e-applications, automated underwriting and direct issuance — all of which help deliver the type of instant gratification consumers expect in a digital economy. Some insurers may not be able to offer complex, differentiated products in a streamlined way, but they can seek to offer a better experience or added value. Like the change from policy- to customer-centricity, this fundamental shift will require insurers to reconsider how they design and build new products, how they go to market, and how they interact with their agents and customers.

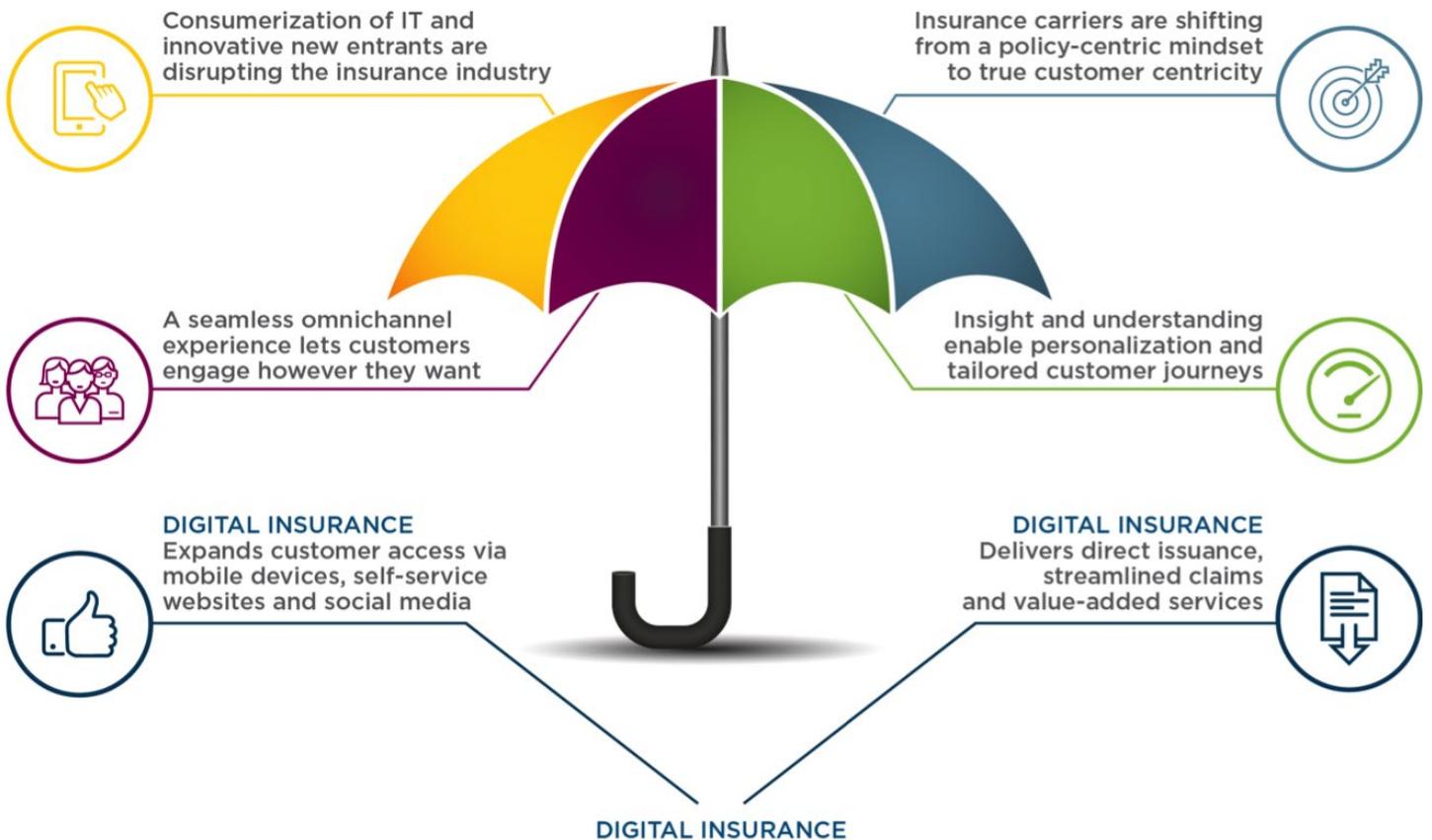
For one thing, digital insurers will need to offer an omnichannel buying experience that augments traditional channels with robust self-service options. Insurers must

provide existing and new outlets, direct purchasing and a single customer experience across online, mobile and social channels. Digital insurers will also need to introduce a higher degree of automation from front to back; straight-through processing (STP) made possible through simplified products; automated underwriting for new business; first notice of loss (FNOL) automation; and self-service options for claims.

In this changing environment, digital insurance CIOs face a daunting challenge. They must support legacy systems, which may be full of redundant and duplicate systems, a result of the industry's many mergers and acquisitions, while also building new technologies. This dual agenda to tackle massive legacy infrastructure issues, while innovating and building new capabilities, may prove overwhelming.

In fact, a company may not be able to achieve the necessary tools to compete in the digital insurance space through its current partner mix. Consideration may

BUILDING BLOCKS OF DIGITAL INSURANCE



The strategic aggregation and analysis of data promises to alter every part of the industry value chain.

need to be given to a partner strategy that will align with the new digital business.

Adapting to the shift

Insurance customers of the past were passive buyers; today, they're active participants. They review insurance products and report experiences through their social networks. They offer product support to others and enable self-help. And they demand new levels of access via mobile devices, do-it-yourself websites or social media.

This shift in customer power means that insurers need to rethink their relationships with customers and how to engage them. Digital insurance companies need to adopt agile operating models that prepare them for future opportunities and challenges, and to do this, they need to look beyond the enterprise walls and adopt innovation in ways that blur the enterprise's traditional boundary lines.

It can be difficult to know where to start. However, in our extensive work with digital insurance clients, we see three key areas where transformation can have the greatest impact in the shortest period of time:

- 1. Mastering consumption.** To develop a true omnichannel experience for customers, agents, brokers and internal stakeholders, an insurer needs to embrace the concept of the service-enabled enterprise and the API economy. This begins by focusing on ways to make the company easier to do business with by envisioning a customer's buying journey across channels. The concept also represents a move away from an in-house IT mentality to embrace external infrastructure, cloud computing, as-a-service options and mobility. It features an IT-centric set of initiatives designed to make the enterprise more open, agile and prepared to participate in the digital economy.
- 2. Mastering understanding.** This step is essential to making the shift from a risk table-based, policy-centric business approach to one that is behavior-based and customer-centric. It begins by implementing a big data platform to develop the capacity for meaningful data and analytics work,

which sets the stage for exploring what's possible and what business value can be generated. It also means thinking through a customer's lifetime relationship with the company, examining brand awareness and nurturing the relationship through ongoing, positive brand experiences. This step will help digital insurance businesses determine how to effectively use various streams of data from systems of record, CRM systems and external sources.

- 3. Mastering engagement.** Insurers need to develop a strategic vision of digital insurance with the ambition to change the basic value proposition from one of indemnification to one of continuous value. To do this, they need to develop products and services that fill the "white space" between traditional engagement points with customers — and not just to fill the space, but to help customers enjoy more productive lives with lower risk. This level of engagement requires interactions between internal and external partners. IT must facilitate rapid interactions across an ecosystem of partners that takes advantage of the API economy.

Starting the journey

While any one of these shifts would be a challenge to address, today's insurers must deal with them all at the same time, further raising the stakes. However, the effort to make the shift to digital insurance is worth the returns it can offer and, more so, essential to survival.

The digital insurance industry enables a symbiotic relationship between carriers and customers that delivers continuous value and true engagement. A customer-centric view, powered by new forms of data, analytics and automation, offers the ability to better price risks and help customers live better lives. If insurers are unwilling to make the shift, there are plenty of eager market entrants willing and ready to take their place. But by embracing the right tools, today's companies have the knowledge, ability and motivation to enter this changing space with confidence.

How CSC Can Help

CSC knows that insurers are beset by changes in every part of the business, and that innovating is a challenge when you have enough to do to keep legacy systems operating. As a strategic partner, our Digital Insurance Solution offers a comprehensive set of IT services composed of: an omnichannel portal with integration to digital claims administration, big data platform and analytic services, and the necessary application transformation services required to integrate and customize a customer-centric client engagement process. It also includes consulting services to help you with an enterprise-wide transformation of structures, processes and mind-sets.

Our Big Data Platform as a Service is a fully integrated and managed big data environment. Delivered as a subscription service, BDPaaS makes it faster, easier and far less costly to develop and deploy big data applications. CSC's comprehensive portfolio of big data and analytic services support the planning and execution of your digital insurance strategy. These services provide a means for you to ingest and analyze data — both structured and unstructured — from new and existing sources, including sensors and telematics devices.

CSC's omnichannel system of engagement allows you to deliver a distinctive user experience between online, agent, call center personnel and the policyholder. Our omnichannel system provides a customized interface portal to address the need for a consistent, integrated user interface across all channels.

CSC and its partners offer technical and program management capabilities that help clients deliver on transformative programs to free up both schedule and budget. For example, CSC has helped clients re-platform to the cloud, add mobile services and move applications from hosted to as-a-service implementations. Thanks to these and other related moves, CSC's clients lowered their costs, then reinvested those savings to create modern enterprise applications.

CSC has served the global insurance industry for more than 45 years, with expertise in all sectors: life insurance, pensions, annuities, health insurance, property and casualty (P&C) or general insurance, reinsurance and workers' compensation. CSC's customer base numbers more than 1,500 insurers around the globe.

We are ready to help you realize the potential of new opportunities created by change — competitive advantage, efficiency gains, customer satisfaction and business growth. Now is the time to act, adopting agile new operating models to prepare for whatever the future holds.

Authors



As the chief technology officer for CSC's Global Insurance business, **Brian Wallace** drives technology strategy, client-focused solution development, and the ongoing alignment of CSC's capabilities to the needs of the insurance industry. He engages with clients, prospects and partners around digital disruption and the future of the insurance industry.

bwallac5@csc.com



Michael Risley is vice president and general manager at CSC, responsible for the global portfolio of insurance offerings. This includes next-generation new business and policy administration systems, business process outsourcing, and customer implementations and communities for Property & Casualty, Life & Annuity, and Reinsurance carriers.

mrисley@csc.com



Phillip Ehlen is a seasoned CSC software executive helping insurance companies transform their businesses into digital insurance companies. An expert in general insurance and property & casualty insurance, his current responsibilities include multinational/multiline product line management and digital insurance strategy and execution.

pehlen@csc.com

* CSC's ResearchNetwork contributed to this paper.

Join the conversation and share this position paper with your social network using **#Journey2Digital**.



Regional CSC Headquarters

The Americas

3170 Fairview Park Drive
Falls Church, Virginia 22042
United States
+1.703.876.1000

Asia, Middle East, Africa

Level 9, UE BizHub East
6 Changi Business Park Avenue 1
Singapore 468017
Republic of Singapore
+65.6809.9000

Australia

26 Talavera Road
Macquarie Park, NSW 2113
Australia
+61(2)9034.3000

Central and Eastern Europe

Abraham-Lincoln-Park 1
65189 Wiesbaden
Germany
+49.611.1420

Nordic and Baltic Region

Retortvej 8
DK-2500 Valby
Denmark
+45.36.14.4000

South and West Europe

Tour Carpe Diem
31 place des Corolles
CS 40075
92098 Paris La Défense Cedex
France
+33.1.55.707070

UK, Ireland and Netherlands

Floor 4
One Pancras Square
London
N1C 4AG
United Kingdom
+44.020.3696.3000

About CSC

CSC leads clients on their digital transformation journeys. The company provides innovative next-generation technology services and solutions that leverage deep industry expertise, global scale, technology independence and an extensive partner community. CSC serves leading commercial and international public sector organizations throughout the world. CSC is a Fortune 500 company and ranked among the best corporate citizens. For more information, visit us at CSC.com.