Daniel Biondi, DXC Technology

Daniel is chief technology officer for DXC Technology in Australia and New Zealand and has over 23 years of experience in leading and managing the application of advanced IT solutions for organisations within the financial services, telco, retail, manufacturing, and government sectors.

Paul Cronin, DXC Technology

Paul is account chief technologist, insurance and wealth management sector, for DXC in Australia and NZ. Paul advises on the business and technology challenges faced by insurers and provides guidance on solutions that deliver growth, increased efficiency and speed to market through digital transformation.

DISRUPTION IN INSURANCE

Daniel Biondi and Paul Cronin

Introduction

Insurance has long been viewed as relatively stable offering within the financial services sector. Traditionally, people paid their premiums on a regular basis with monies invested for long term gains. Recently though the underlying assumptions, and indeed the very business model of insurance has shifted to the point where it is now being driven to change by a range of challenges:

- Population demographics change where there are far fewer workers per retiree;
- Elevated risks associated with an unfamiliar, post-global financial crisis, economic environment;
- Heightened global tensions and cyber security influence the debate relating to how our data should be shared;
- The accelerated adoption of technology that disrupts current jobs via automation while creating new ones; and
- The overall increasing digitisation of the financial services we consume.

The response of insurers has often lagged in response to these market forces. Many Australian insurers now find themselves endangered from overseas competitors who have been early adopters and beneficiaries of digitisation and are now seeking to globalise their offerings.

As an industry, we cannot wait to innovate. This is now an imperative. The real question is: how do we transform in a sustainable fashion to best leverage current strengths to better fit rapidly changing customer needs?

Market challenges

The challenges below are key drivers of change in the insurance industry.

Customer acquisition and retention

Customer loyalty is deteriorating and it is becoming easier to switch between insurers for an outcome that better suits that individuals need. Comparison sites, such as 'Compare the Market' or 'Canstar' are making it easier for customers to compare competing providers and make decisions that better support individual needs. In the face of such developments, insurers are struggling to differentiate, make it easy to do business with, and hold onto their profitable customers.

Revenue growth

Cost reduction alone does not confer a competitive advantage and the focus has switched to revenue growth. Yet in developed markets, where organic growth is low and the market is close to saturation, the key battle is for the share of wallet of existing customers at your competitor's loss. This places far greater emphasis on efficiency, flexibility and competence than ever before.

Competitive threats

'For-profit' and 'not-for-profit' insurers are under increasing competitive pressure as:

- New entrants expand their global footprint to other countries (e.g. Progressive), and

The quote

There is a need to look outside the traditional domains of insurance to start adopting new technology to be consistently successful in the future.

- Non-traditional organisations create services complementary, or even ancillary, to their existing businesses through white-labelling (e.g. Woolworths or Coles Insurance).

These competitors are not hindered with legacy systems and out-of-date technology service delivery, so they are in a better position to be able to meet those demands.

The rise and rise of technology mobility

Australians have embraced technology in all facets of their lives. Over the past two years, ownership of smart phones and tablets has increased significantly according to the 2016 Australian mobile statistics.

If an organisation wants to engage with Australians, it has to be where they are – mobile connected – where smartphone and tablet usage made up 63% of total time spent on devices in September 2015.

Australian businesses need to adapt to the new ways Australians like to be connected. These customers are mobile and an organisation has to be where their clients are – and they are on mobile and social. When their expectations are not met, and they can't find you on social media or via a Google search, they are more likely to go somewhere else to the organisations they can find. This is especially the case for millennials, who predominantly interact with the world via their smart phone.

Operational efficiency and cost containment

Insurers are now using technology in new and innovative ways as a means of containing increasing cost pressures. Up to 17 July 2017, weather related catastrophes in Australia have resulted in 112,000 customer claims, with an estimated loss value of AUD$1.95 billion. As a way of containing, or restraining, costs the use of prevention or avoidance systems are becoming prevalent. This includes collision avoidance systems in vehicles and smart home technologies to reduce the impact from floods or other natural events.

Risk management, fraud and cyber security

The Insurance Fraud Bureau of Australia (IFBA) is a working element of the Insurance Council of Australia (ICA), established to help combat insurance fraud in all of its forms. It quotes that insurance fraud is estimated to cost the industry more than AUD$2.2 billion annually. In addition, the insurance industry is a prime target for cyber security incidents. There is clear evidence that cyber 'attacks' are increasing in frequency and sophistication. As such, a heightened level of awareness and vigilance is required in order to implement measures to protect systems and data from cyber- attacks. The APRA 2015/16 Cyber Security Survey results identified that 46% of life and general insurers reported that they experienced a cyber security incident.

Core questions raised by market challenges

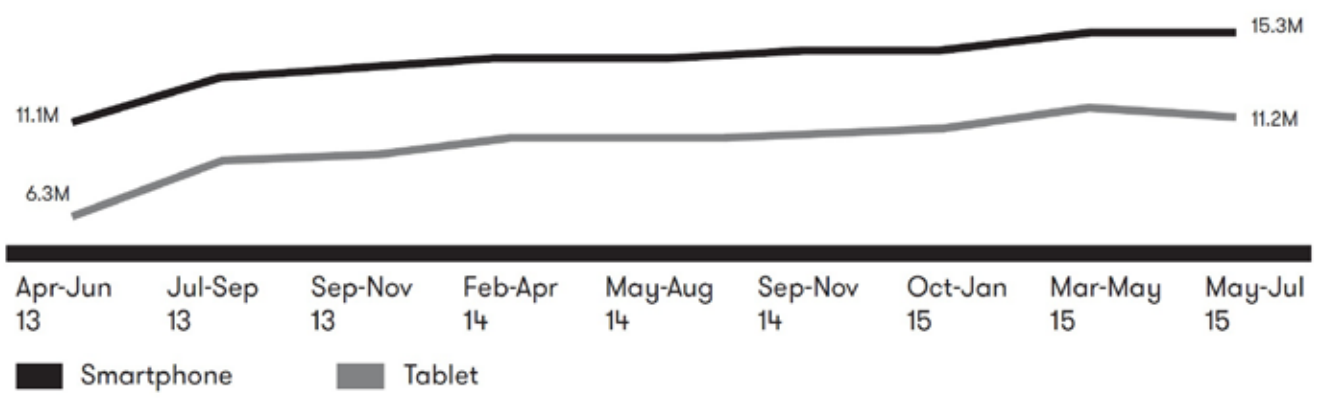
Given the market challenges listed in the previous section, what is the most appropriate outcome for insurers? How do they not just retain customers, but expand in an ever more complex environment constrained by low systemic market growth? With customers being increasingly aware, and personally invested in, what are the outcomes that they are looking for? How best to meet customers' needs when one size no longer fits all?

In this increasingly consumer aware market, price also becomes a critical consideration. If an insurer cannot provide a price competitive option for consumers' needs, it will become less relevant. Operational efficiency is key to ensure that costs are no more than what they need to be to provide the best pricing option for both existing and prospective customers.

Life insurances (temporary and permanent disability (TPD), trauma and income protection)

Recent innovation in MySuper default products has seen SunSuper offering a 'TPD Assist' cover which aims to

Figure 1. Smartphone and tablet ownership



get people back to work. Their research concluded that 36% of people who claimed TPD were back at work, or seeking work, within three years. This innovation has resulted in a 30% reduction in TPD premiums.

AIA Vitality uses a preventative approach that rewards its life insured customers based on their healthy lifestyle behaviours – eating/drinking, sleep, frequency of exercise, medical check-ups, etc. – through the assignment of AIA Vitality points and status.

Health insurance

Health insurance costs continue to increase. In some cases, annual increases have outpaced inflation for many years, a situation which is further exacerbated by an increasing gap between service cost and benefit return. This continual 'double-impost' of private health insurance brings into question the overall benefit of its value in a country that has a full-coverage public health system.

To provide closer alignment to customer expectations and better control of their coverage, health insurers have introduced flexibility within their coverage options. This includes categorisation based on life stage (e.g. BUPA) or the choice of extras options (e.g. NIB). Traditional life insurer AIA are also disrupting the status quo by entering the health insurance market and promoting its 'Vitality' program as a way of attracting a healthy pool of lives who are frustrated at cross subsidising premiums for unhealthy Australians.

General insurance

The exponential growth of 'intelligence' being added to more and more devices will provide significant benefit to general insurance. Increases in the availability of relevant data allow risks to be better assessed, tailored and subsequently priced for each individual circumstance. One example relates to car usage patterns, called 'telematics', which rewards less risky drivers with lower premiums. A recent case study on a top 10 UK P&C Insurer using Digital Claims resulted in: customer service NPS of 76, better efficiency with call centre workload reduction by 66%, cost savings of £80M and anti- fraud identifying 50% more red flagged cases in personal injury motor claims with only 4% false positives.

Another example involves environmental sensors that are able to provide predictive alerts on specific events, such as hailstorms, that then encourage policy holders to take precautions prior to the event.

Engaging with customers effectively

Highly connected customers are spoilt for choice. They won't hesitate to move on to other providers if their needs aren't being met. For the insurance sector, this dynamic, customer centric landscape makes an already competitive environment even more challenging.

Ten critical areas of customer engagement

There are ten critical areas that insurers must address to meet the demands of these new connected customers, as shown in Figure 2.

Transforming the customer experience

The availability of new technologies, from big data to the cloud, makes it easier to optimise the customer experience. As such, insurers should focus on:

- Harnessing actionable insights from big data and using customer data analytics to cross-sell and up-sell;
- Using analytics to measure the customer experience and evaluate and plan new initiatives;
- Leveraging the power of the cloud to create an agile response and cost-effective links with customers;
- Engaging and educating customers, so that they care more about the 'what' and the 'how' of their insurance experience. Give them more control; and
- Discovering what engagement feels like from the customers' perspective to drive a more satisfying experience.

Insurers that fail to transform will lose business to those that do. The focus must be outside-in with technology integral to understanding, measuring and constantly improving and anticipating the customer experience. Success is all about predicting what the customer wants and having the flexibility to respond in a unique, relevant, and satisfying way. The winners will be those organisations that are willing to embrace the opportunities with an IT strategy that is customer-facing and provides a unified customer experience at all touchpoints.

Figure 2. Ten critical areas of customer engagement for insurers

Technology and innovation: Tomorrow is already here!

Unfortunately, the insurance industry has been slow to adapt when it comes to adopting new technology. Standards set by technology companies such as Facebook, Google and Apple who are at the forefront of leveraging the latest financial technology are ripe to replicate here. This means the battle for survival will not be waged against traditional financial institutions but against the likes of Facebook, Google, Amazon and Apple. Not only is more information being shared with these organisations, knowingly and unknowingly, these organisations are already delivering the level of customer service that customers expect.

In the future, there is significant opportunity for insurers to enhance back office efficiency, reveal customer insights and enhance the customer experience. In essence, there is a need to look outside the traditional domains of insurance to start adopting new technology to be consistently successful in the future.

Insurance connected

The insurance industry is very progressive in sharing rich data that can be analysed to understand consumer behaviours, identify insurance fraud and support claims management. The analysis of 'big data' is an important part of ensuring that the policy premiums are set to the most appropriate price based on the attributes that go into making up the policy. Set the premium too high and the risk is that both existing and prospective customers will be driven away. Price the premiums too low and the cost of the risk may be more than the return. Insurance is now a finely tuned data- driven high-wire balancing act where one false 'step' could lead to trouble.

With the inter-networking of physical devices, vehicles, buildings, etc., that are embedded with sensors to enable these objects to collect and exchange data it doesn't take too much imagination to see how this continuous flow of information will change the risks that can be tracked and managed in other areas. The health industry, through various wearables, is at the forefront of health management and the assessment of an individuals' risk.

Underpinning all of these changes will be data, increasingly smart algorithms and machine learning that are capable of uncovering previously misunderstood human behaviour. This will provide actionable insights into new business models that deliver radically improved value for consumers.

Blockchain

Blockchain, in its pure distributed ledger sense, offers many benefits to the insurance industry.

In insurance, the potential uses of blockchain extend beyond relatively simple process-based activities such as insurance claim settlements. Anything of value can be added to a specific blockchain to provide an immutable record. For example, Everledger is being used to track the history of diamonds and the Commonwealth Bank of Australia (CBA), together with Wells Fargo and Brighann Cotton performed a trade using the blockchain as a smart contract store and the IoT.

Digital insurance and business platforms

A shift is needed in the way insurers run their businesses if they are to truly harness the benefits of new technologies, differentiate their businesses and deliver an improved customer experience.

A platform strategy that includes a 'platform of platforms (POP)' allows a business to bring together an ecosystem of partners, infrastructure and data to create a customer-centric experience. The partner's services complement the businesses core offering adding to the overall value for the customer. For an insurer, the platform strategy allows the business to utilise data and monetise value creation for their customers, as opposed to monetising an event after it has occurred.

That is, rather than insuring for a car accident, insurance will be focused on preventing that accident.

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 fully commoditised, creating another entry point for new competitors. But consistent customer engagement through digital channels goes a long way toward helping insurers maintain mindshare in the marketplace and simultaneously ward off competitive threats.

Digitisation and customer communications management

Disruptive forces are creating the new digital enterprise and new business models are needed to meet the demands of the mobile consumer. Consumers expect immediate access to customised and relevant information and a seamless customer experience in their preferred channel. This is why organisations must transform from paper-based to digital processes and capture, organise, and store digital content to automate and streamline processes.

Digitisation is the process of converting analogue content into digital content. This process enables the integration of content across multiple channels, automation of processes to enable self-service, straight-through-processing and new digital-focused business models.

Robotic process automation

Robotics process automation (RPA) is changing the ways CFOs and CMOs do business. Due to the high levels of manual, repetitive work within their operations, insurers are expected to benefit most from RPA adoption. By choosing processes that take structured inputs that need to be dispersed across multiple systems or act over a large, consistent data set, these activities can be automated with a high-degree of certainty with a consistent level of quality that is not able to be achieved using traditional, people-based approaches.

Conclusion and what business leaders should do

This white paper has looked at the market challenges being faced by insurers, explored how they could respond, customer engagement elements and then examined technology and innovation solutions to enable these organisations to engage and serve customers more effectively.

Insurers must evolve to ensure that they remain relevant in a rapidly changing, customer-driven environment. Customers know what they want, when they want it and, just as importantly, how they want it. A lack of attention to the 'anywhere, anytime, any device and any channel' mantra will ensure that customers will move their business to those organisations that do understand this need.

Organisations that use a customer-centric approach, focusing from the outside-in, will understand and measure the customer experience of their services and put in place actions to enhance this experience to engender customer loyalty.

In the end, the way to the customer's mind is all about context. Provide your customer with a simple, intuitive and, most importantly, relevant experience. It might not be an impersonal online interaction that a customer wants, but rather a face-to-face one. The point is, a flexible, customer focused organisation will know this and be able to predict what a customer will want, as well as, react to that customer in a unique, relevant and satisfying way. FS