Rethinking the
INSURANCE INDUSTRY
in a digital world

APU is a knowledge-based consultancy company providing research and analysis, data, technical and business advice and services, sought by business leaders and strategists, to help them capture tomorrow's opportunities, today.
APU delivers market research reports covering markets, industries, countries, companies and technologies.

By continuously updating our desk research, and leveraging market research publications from leading institutes and consultancies worldwide, we provide relevant, current and credible research, critical to the success of your business.

Our clients use our insights, critical analysis, statistics and forecasts to help make strategic business decisions and grow their organizations. Our approach combines deep insight into the dynamics of industries and markets to help clients build more capable organizations and sustain lasting results.

Global Business Intelligence

Trends and forecasts for 18 global industries and over 1200 industry subsectors in up to 60 economies.
Our subscription services for data, news, analysis and forecasts, help clients understand how the world is changing and how that creates opportunities to be seized and risks to be mitigated and managed.

DIGITAL FUTURES
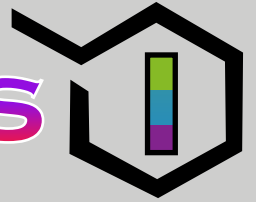
DIGITAL FUTURES is an online content publication platform catering for technology business leaders, decision makers and users, by sourcing and sharing valuable information and best practices in connection to the latest emerging technologies trends and market developments that leverage capabilities and contribute towards enhanced enterprise-wide performance.

WATCH VIDEO
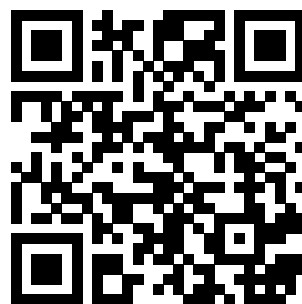
TAL FUTUR

WATCH
DIGITAL FUTURES VIDEO

LEARN MORE

RETHINKING THE INSURANCE INDUSTRY IN A DIGITAL WORLD

The insurance industry's digital transformation is in full swing. Insurance companies, as well as banks and other providers of financial services, are increasingly becoming IT-operated businesses. Digitalization provides opportunities for increasing efficiency, offering new services, building better customer relationships and combating fraud. It also presents new challenges and investment requirements to companies[1].

At the same time, consumers are becoming increasingly critical and motivated. They expect their insurance providers to provide a service that is just as accessible and engaging as that of any other industries, and they are becoming more willing to move away from providers that do not meet their needs. Insurers, who have traditionally easily worked through intermediaries, invest directly across digital channels in knowing their customer base and creating a brand identity with them. Insurers increasingly feel the need to react, but this balancing act is more difficult to achieve within traditional insurance business models. Sustainable performance needs something radically different to take advantage of new innovations that drive micro-disruptions[2].
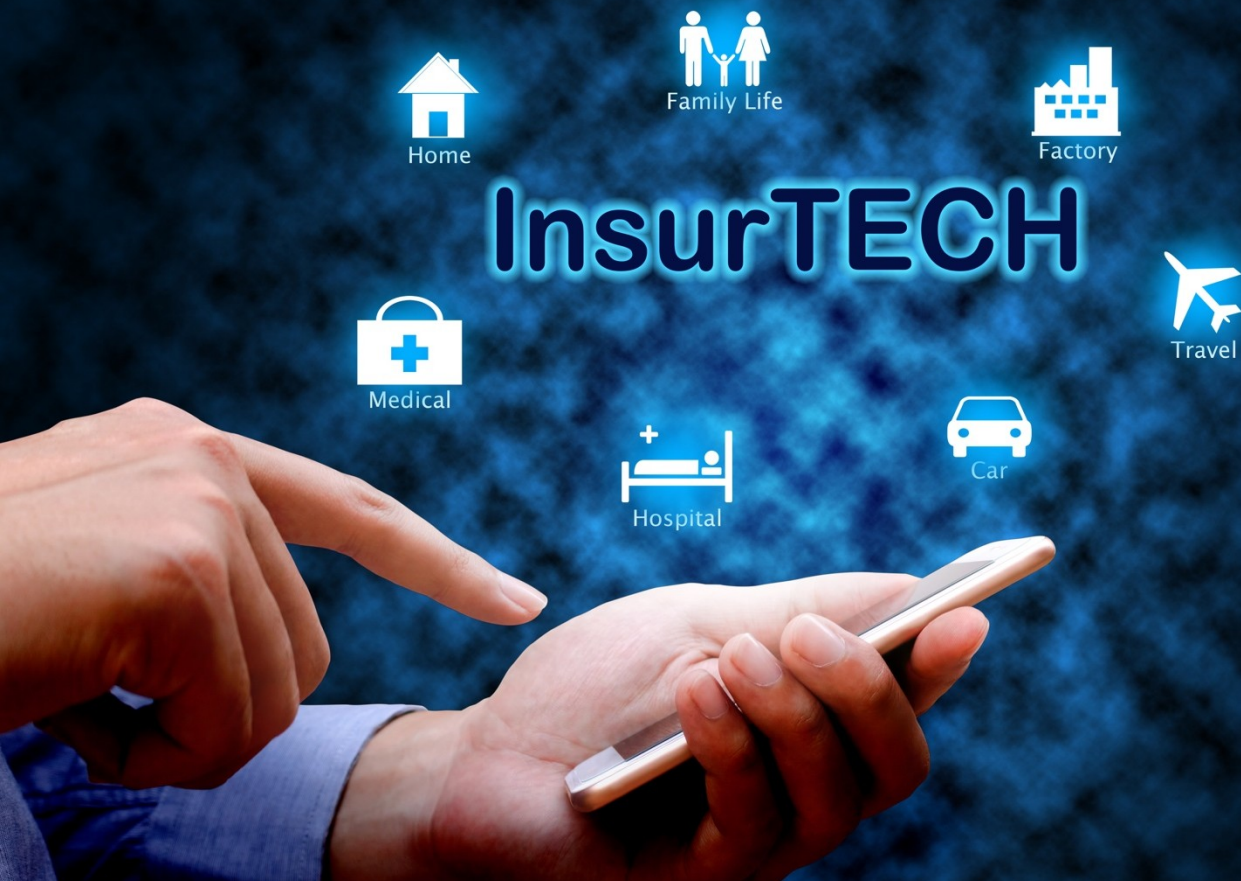
Technological innovations also have an impact on all stages of the insurance value chain, mainly as a result of data and process digitalization. The phase of product design and development is directly affected by the increased availability of customer data, allowing the development of more personalized products and services tailored to consumers' needs and demands. Sales and delivery are arguably the most affected stage in the insurance value chain by digitalization to date. Disintermediated sales via internet or mobile phone applications in this respect benefit from simplified, timely processes and reduced distribution costs.

Market players, such as comparison websites, have also rapidly gained a leading role in the sale and distribution of certain lines of business. With respect to insurance underwriting and pricing, the use of Big Data processes in insurance allows for more granular risk segmentation, increases the efficiency of risk detection, and also allows for more risk-sensitive pricing. It promotes underwriting to reduce costs and volatility, which provides greater flexibility in the underwriting process. In fact, post-sale services and claims management were the value chain areas in which InsurTech has greater potential. Online services and smartphone applications enable insurance companies to offer tailor-made services 24 hours a day, accessible from anywhere[3].

PRODUCT DESIGN

1) Products based on data gathered from IoT devices
2) Personal coverage (Pay How you Drive, Pay Per Use)
3) Sliced insurance

SALES AND DISTRIBUTION

1) Fast quotation, full direct
2) Digital sales processes also with traditional networks

UNDERWRITING AND PRICING

1) Big Data to build customized coverages based on customer profile and behaviors
2) Big Data to avoid fraud and adverse selection and to extend coverages

POST-SALES, SERVICES AND ASSISTANCE

1) Online tools to manage the policies anytime/anywhere
2) On demand policies and services
3) Social customer care

CLAIMS MANAGEMENT

1) Digital interactions to improve customer experience during claims handling phase
2) Big Data to prevent and investigate fraud

Fig 1   Digitalization is already impacting the insurance value chain. EIOPA. (2017). How technology and data are reshaping the insurance landscape?

From all the aforementioned it goes without saying that insurance companies have to be prepared to accelerate changes. More precisely, some of the steps that insurers should take to address the changes that have taken place since the digital revolution are the following[4]:

1. GET SMART ABOUT INNOVATIONS AND DEVELOPMENTS RELATED TO ARTIFICIAL INTELLIGENCE (AI)

Board members and customer experience teams should invest time and resources to develop an in-depth understanding of these technologies related to AI. Part of this effort will require exploration of hypothesis-driven scenarios to understand and highlight where and when disruption can occur and what it means for certain business lines.

2. DEVELOP AND START A COHERENT STRATEGIC PLAN

Insurers should establish a perspective on the areas in which they want to invest to meet or beat the market, and what strategic approach - for instance, the formation of a new entity or the building of in-house strategic capabilities - is best suited to their company. This plan should address all four dimensions, namely; data capabilities, models and tools, organization and talent, and change management of any large-scale, analytics-based initiative - from data to people to culture.

3. DEVELOP AND IMPLEMENT A COMPREHENSIVE DATA STRATEGY

Data is quickly becoming one of the most valuable assets for any company, if not the most. The insurance industry is no different: how insurers define, calculate, position and manage risk is all dependent on the volume and quality of data collected during the life cycle of a policy. As such, in terms of both internal and external data carriers should build a well-structured and actionable strategy. Internal data must be structured in ways that allow and encourage the agile development of new ideas and skills in analytics. For external data, carriers should focus on ensuring access to data that enriches their internal data sets and complements them. Carriers must be prepared to have a multi-faceted procurement strategy that may include direct acquisition of data assets and providers, licensing of data sources and partnerships with data brokers.
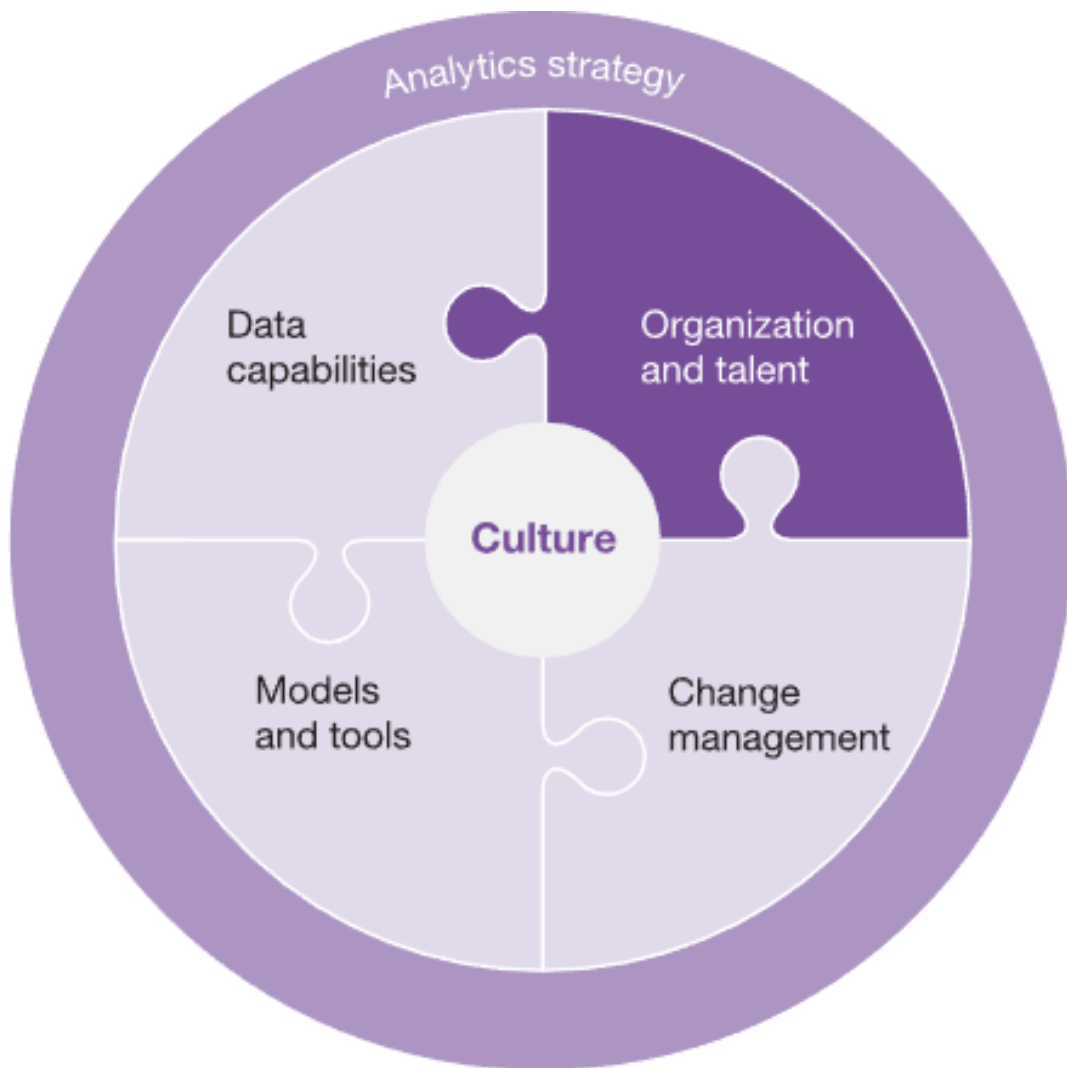
Fig 2 Four core elements in defining a successful strategy. McKinsey. (2018). Insurance 2030- The impact of AI on the future of insurance.

AS MANY LINES MOVE TOWARDS A METHODOLOGY OF "PREDICTING AND PREVENTING", CARRIERS WILL NEED TO RETHINK THEIR CUSTOMER ENGAGEMENT AND BRANDING, PRODUCT DESIGN, AND CORE EARNINGS.
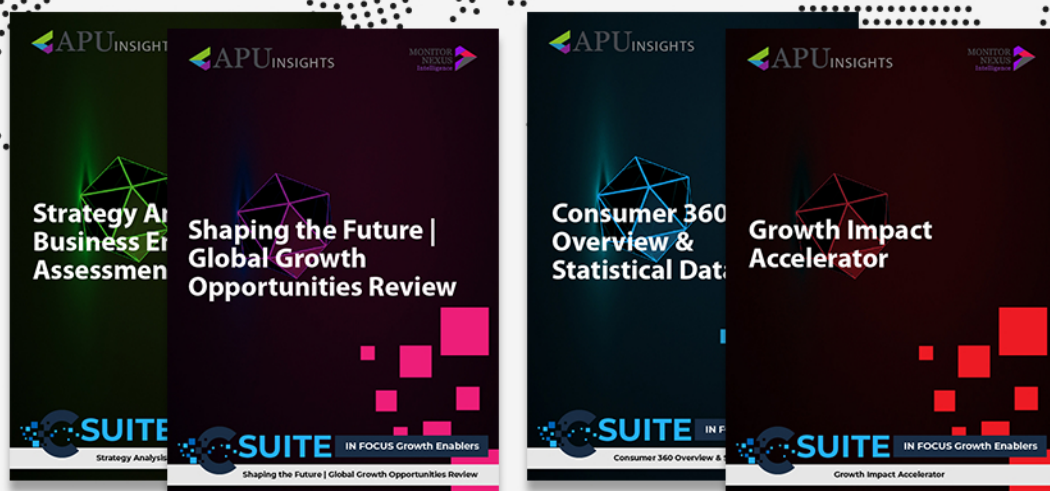
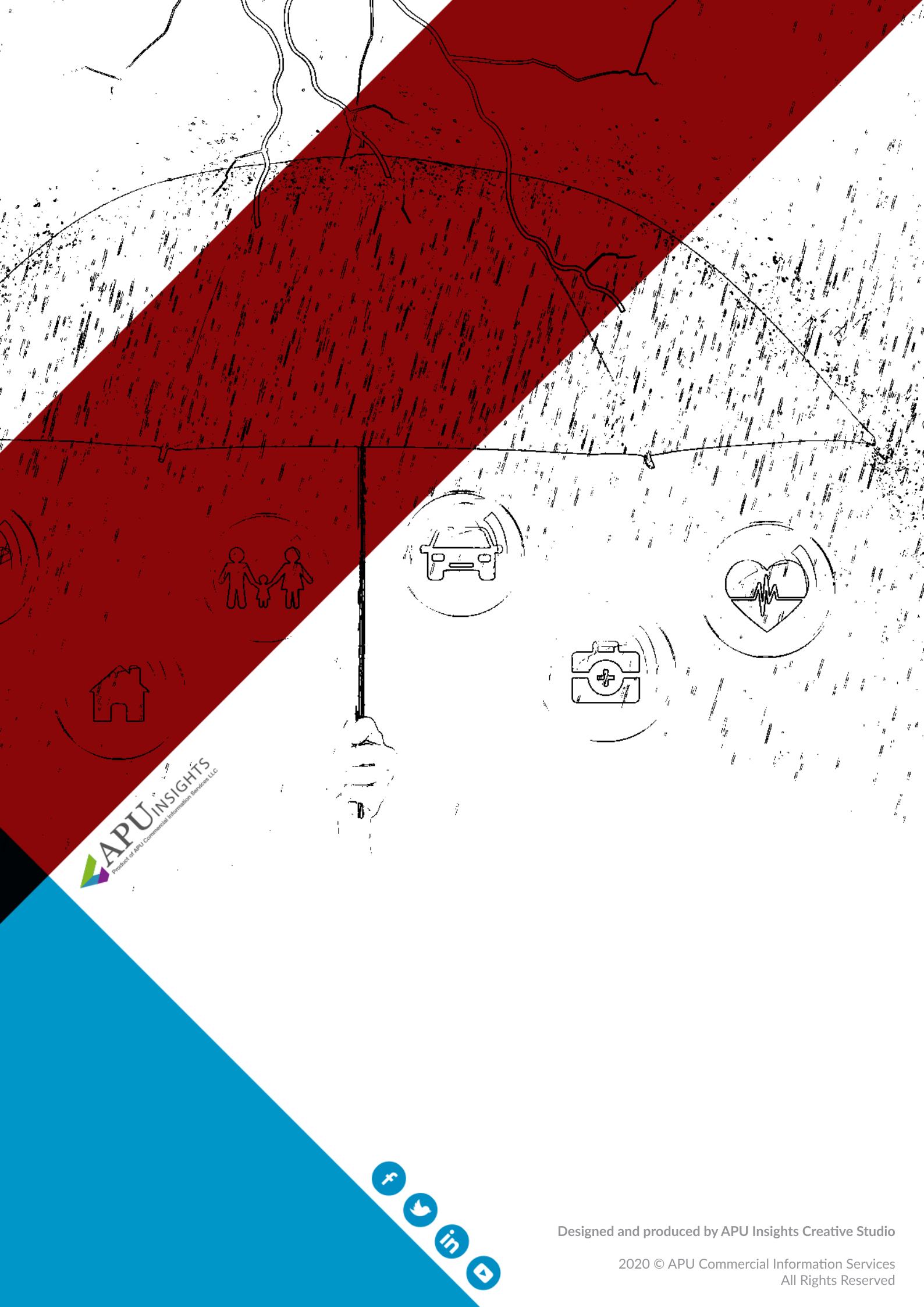## 4. CREATE THE RIGHT ENVIRONMENT FOR TALENT AND INNOVATION

The future insurance industry would require talent with the right mindsets and skill. The next generation of effective frontline insurance employees will be in ever-increasing demand and must have a unique mix of technologically trained, innovative and willing to work on something that will not be a static process but rather a mix of semi-automated and machine-supported tasks that change continuously. Organizations must recognize external resources and stakeholders to improve in-house ability to assist carriers in obtaining the necessary support for business development and execution.

Rapid technological advances over the next decade will lead to disruptive changes in the insurance industry. Insurance industry winners will be carriers that use new technologies to create innovative products, leverage cognitive learning insights from new data sources, streamline processes and lower costs, and outperform customer expectations for individualization and dynamic adaptation.

REFERENCES

1. Friss. (2018). Digital transformation in insurance. What is the current state of the industry?

2. IBM. (2016). Rethinking insurance.

3. EIOPA. (2017). How technology and data are reshaping the insurance landscape?

4. McKinsey. (2018). Insurance 2030-The impact of AI on the future of insurance.