

Insurance Companies: Staying Competitive in the Digital Age

Insurance companies need to act not only quickly, but also deliberately, to not lose the race against companies which better address customer experience and value proposition in the digital space. Traditional insurance companies require a holistic transformation approach based on their strong foundation and heritage, but embedded in a more flexible, partner-oriented and agile structure. This article outlines current digitally based developments reshaping the insurance industry, shows how an insurance company can benefit from them, and which factors are critical on the path to becoming a digital insurer of the future.

BY HERBERT HENSLE AND DR. GÖTZ OTTO

The insurance industry is facing various challenges, instability in financial markets, low interest rates as well as changing and increasing regulatory requirements. However, whereas most insurance companies have already made the effort to adapt their organization to the regulatory changes, the toughest challenge impacting insurers' business model and customer satisfaction is digitalization.

Although late compared to other industries, the insurance industry has begun to embrace the digital challenge. Some insurance companies have recognized the potential of digital transformation and have started to use it to their advantage. These companies use digitalization to increase their customer experience and to specify customer segmentation, as well as enhancing risk management and cost effectiveness.

Digitalization is a powerful driving force, changing the insurance environment radically. Customers expect insurance companies to use web and mobile applications as channels for their continuous engagement throughout the whole customer journey. Furthermore, customers request more self-service opportunities; personalized products/services; and a consistent approach based on a high service level across all sales and communication channels.

Based on our research, Otto & Company identified six major digital opportunities for insurance companies, originating from technology developments, new ways of managing data and increased connectivity (Figure 1). The future competitiveness highly depends on how companies take advantage of these opportunities and how they orchestrate digital transformation.

Creating a unique digital customer journey

For today's customers it is common to compare and buy products online, to communicate over social media platforms and to use the digital channel for research. To ensure future positive customer experiences, insurance companies need to ensure a seamless omnichannel customer experience along the entire customer journey. This requires addressing customers' needs from creating awareness through research and the purchase process, right on through service and claims management, and finally to retention and word-of-mouth.

As most customers today start their purchase process with research on the internet, the company website plays a central role in the digital customer journey and therefore companies need to guarantee that it provides meaningful content and an engaging experience to visitors.

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Mobile and social media represent further internet channels to enrich the customer experience by providing personalized and significant omnichannel marketing and sales initiatives.

Delivering a one-size-fits-all customer approach is going to be replaced by personalized product solutions. Insurance companies better know their customers, as well as their behaviors and past behavior through the effective use of omnichannel management. Offering products and content according to the customer's needs, enables insurers to create higher customer loyalty.

Based on successful engagement of the customer during the research phase, the digital experience should move toward directing and influencing the customer's decision process. In this phase it is essential to provide transparent, simple and decision-supporting information about products according to the client's needs. For example, endorsements from existing custo-

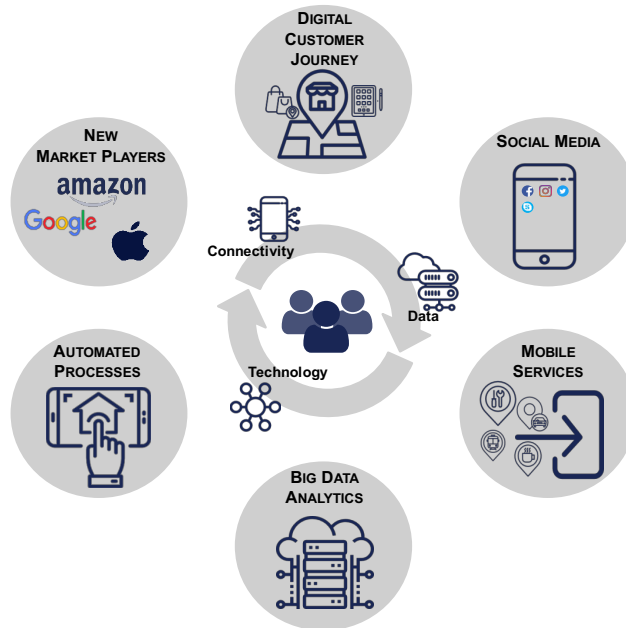
mers such as comments and ratings, or information that is highly relevant to certain customer segments.

Customer expectations on the purchase process are steadily increasing. This originates from their experience with online companies such as Amazon or Netflix, which deliver their products to the customer's doorstep rapidly at a

mend the product or the brand to others. As mentioned in the research phase, comments and reviews of existing customers play a significant role in the purchasing decision. Insurance companies that motivate their customers to share their positive experiences through social networks can influence the purchase behavior of potential buyers.

in contact with existing and future customers.

Social media channels can be used to identify needs of existing and future customers to develop new products and also to test new offerings before rolling them out on scale. Liverpool Victoria (LV), an insurance company based in the UK, established a community for members, named LV=Community, allowing for targeted marketing as well as product testing. The company has developed an online engagement strategy, defining the customer interaction through social media channels. By making use of Facebook, YouTube and Twitter, LV increased customer activity to gain insights and feedback to develop products and services.



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competitive price and twenty-four hours a day. A significant step in the digital customer journey is offering a fast and simple purchase process across all sales channels. For example, Schutzklick, an online provider for product insurances, offers immediate insurance contract conclusion for mobile and fixed electronic devices, furniture, glasses and bikes via their mobile website.

Customers expect insurance companies to offer online platforms, where everyone can find product and topic-related information, as well as self-service options to manage online transactions such as claims management and access to personal information. Providing self-services to customers opens up the opportunity of up- and cross-selling.

The concluding step of the digital customer journey is the referral phase, in which customers recom-

Using social media to push brand image and enhance customer experience

So far, social media channels are playing a minor role compared to sales channels for insurance companies. Only every second customer would consider comments on social media to make a buying decision; however, it is expected that the importance of sales channel will increase remarkably within the coming years.

Social media represents a valuable opportunity to enhance the customer relationship by intensifying contact frequency and improving brand image, e.g. by reacting on negative comments. For example, Allianz Germany motivates its sales force to increase their activities on Facebook to engage and stay

Exploiting mobile solutions to reach customers anywhere and anytime

Mobile channels open up multiple opportunities for insurance companies to enrich the customer journey anytime and anywhere, develop and specify new product offerings and enhance internal operations like policy application and administration as well as claims submission.

For example, the health insurance startup Oscar, founded in 2013 in New York, offers its customers a mobile interface as well as highly transparent products and services. The company even offers a mobile platform where customers can get advice from healthcare experts. Just recently Google announced to invest a remarkable sum of \$32 million in Oscar, based on the startup's potential to reduce hospital and other healthcare costs. Another example is the German online broker Clark, offering a mobile solution which enables customers to compare insurance products, to manage contracts and to get advice from the company.

Mobile also implies the opportunity to improve the capabilities and efficiencies of organizational pro-

cesses. The US-based insurance company MetLife implemented an app that equips agents with a single source of customer information, enabling them to get a 360-degree view of a customer's transactions.

Even though our research has shown that many insurance companies have already established mobile initiatives, the ratings and user numbers show that the possibilities in many cases are not fully explored. As the mobile channel offers valuable opportunities for insurance operations and as it is expected to grow in importance in the coming years, companies need to define clear objectives for the mobile channel, integrate mobile within the product and omnichannel environment, adapt to evolving mobile trends and invest in app promotion.

Benefit from the opportunities resulting from the application of advanced analytics

A key part of the insurance business is to analyze and understand risk by making use of advanced mathematics and financial theory. Innovations in technology and the steady increase of structured and unstructured data have transformed the traditional work of actuaries.

Historically, risk has been defined by making use of claims records, demographics and physical data. Today, through the use and combination of technology developments such as wearables, telematics and the Internet of Things (IoT), insurers are able to monitor and constantly refine the individual risk profile of a customer, allowing for more precise underwriting and facilitating greater pricing accuracy. Enhanced knowledge about customers' needs and lifestyles also has a positive impact on developing personalized products, tailor-made marketing campaigns and delivering offerings at the point of the customer's decision.

Real-time data monitoring is not only an advantage for insurance companies, but also for customers who can learn more about themselves. For example, usage-based insurance (UBI) applies GPS technology and wireless communications to facilitate car insurers to gather usage and behavior data of their customers in real-time. Signal Iduna cooperates with TomTom Telematics, offering a direct discount for young drivers using the telematic solution, which increases the longer the customer drives conscientiously. As insurance premiums are in most cases linked to the customer's risk profile, customers are incentivized to reduce their risk. This has a positive impact on claims frequency, pricing accuracy and precision of product pricing.

To successfully adapt and succeed in this developing environment of advanced analytics, insurance companies need to manage complex and comprehensive organizational change. Initial investments in advanced analytics focused on IT projects, whereas now people and management processes are at the center of attention. Several insurance companies have recognized the necessity for developing appropriate skills and processes within the company. AXA, for example, has established innovation labs in order to make analytical and technical sources available. The company founded a center of expertise that focuses on big data and supports business sectors by building technological platforms and exploring the latest technical opportunities.

Automating and simplifying processes to increase efficiency and effectiveness

To stay competitive in this rapidly changing environment, insurance companies need to ensure flexible, agile and cost-efficient structures and processes along the whole value chain. The integration and

automation of processes and a harmonized IT system build the precondition to flexibly adapt to changes, to enable advanced data analytics and to reduce costs by replacing labor intensive activity. Additionally, it implies the opportunity to improve communication between functions as well as with existing and potential stakeholders such as customers, medical providers and governments.

Automation has the potential to create customer satisfaction by offering transparent and lean purchase, service and claims processes, independent of the used contacting channel. Various companies already offer their customers automated solutions and self-service options. For example, Progressive, a US based insurance company, offers the generation of car insurances online through scanning the driving license. DKV, a Germany based health insurance company, provides an app that enables scanning and submitting medical bills online. Swiss Life and various others established a self-service portal for customers, enabling them for example to get insights into account details or to remark changes in address.

Managing new market players transforming the insurance value chain

Decreasing customer satisfaction and loyalty towards insurance companies and the rapid permeation of new technologies is encouraging the emergence of significant new competitors such as start-ups and data-giants such as Google and Amazon. These new market players are not just technology companies with a better widget; they have access to communities and an extensive data pool and expertise in collecting and systematically analyzing large datasets to target customers' individual needs. Based upon this, they are characterized by high customer focus, high agility of organization and of internal processes, and are

able to offer flexible, innovative products.

In order to prevent being overrun by these new players, to inhibit losing significant customer touch-points, and to compensate limits with regards to fast innovation, insurance companies can step into partnerships with these agile and flexible new competitors. Additionally, insurance companies can learn from the new players in terms of handling data and building relationships with customers.

Various best practice examples for value-adding collaboration with new market players exist. The partnership of ERGO Direkt with Amazon for example provides various opportunities for ERGO: it represents an additional online sales channel by combining the purchase of an electronic device on the Amazon website with the suitable insurance product. A similar example for affinity marketing is the partnership between Zhong An, a Chinese insurance firm with the Chinese shopping side Alibaba, for which the company insures property and cargo.

Making effective use of the described digital opportunities and compensating hindering factors by collaborating with new, agile market players, are key factors for insurance companies to ensure future competitiveness. However, it is not enough to conduct digital initiatives, but to carry out a holistic transformation of the organization, embedded in a flexible, partner-oriented and agile structure.

Digitalization has an impact on the traditional insurance business model

Sensor technologies, such as telematics, wearables and IoT, will reshape the insurance industry and existing business models.

For example, wearable devices will transform the health insurance industry. Many insurance companies already make use of wea-

rables or connected devices to quantify, track and monitor health-care/fitness data. The already mentioned healthcare start-up Oscar provides its customers wearable fitness trackers for free to encourage them to be more active. Simultaneously, the company tracks fitness data with the result of enhanced risk management, customer segmentation and marketing activities. The Techniker Krankenkasse just recently announced the reimbursement of the cost for Tinnitracks, an application for the therapy of tinnitus. With the partnership of the start-up Sonomed they aim to make an alternative for tinnitus therapy available, to enhance therapy results by regular monitoring, and to reduce related costs.

Internet of Things (IoT) or Smart Home will have an impact on property and casualty insurers. Connected home devices open up new, valuable opportunities for insurance companies. By collecting data on individuals or households, insurers can better mitigate risk, reduce claims losses and encourage beneficial changes in customer

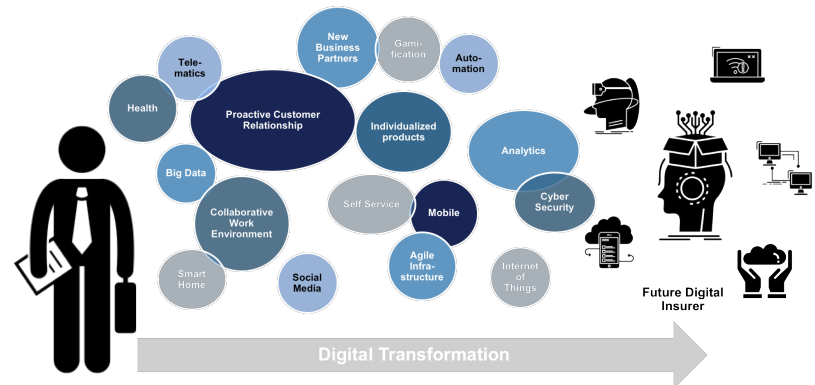
emergency help service of Allianz immediately informs the relevant tradesmen and settles the invoice.

These developments will have an impact on decision-making, the way operations are managed as well as processes are perceived. The development of products will need to reveal far greater opportunities for capturing and evaluating information.

What needs to be done to become a digital insurer?

If insurance companies do not act quickly, they risk losing their ownership of customer relationships to innovative and agile new market players and insurance companies that are able to more quickly transform their organization digitally.

Becoming a leading, digital insurer requires more than undertaking various digital initiatives; it necessitates a company-wide digital approach and the leverage of the full potential of digital tools and approaches (Figure 2).



Otto & Company - Becoming a digital Insurer

behavior, such as closing doors and windows, or installing a house alarm. Nest Labs for example offers connected home services like temperature or smoke monitoring. Another example is the collaboration of Deutsche Telekom and Allianz Assist, offering smart devices solutions for private customers. In case of damage such as water in the basement or smoke in the house the customer is alarmed via smartphone. The

Based on Otto & Company's experience, taking the following four factors into account are key for a successful digital transformation.

1. To frame the digital challenge ...

... an insurance company needs to build awareness on its digital status quo before defining and establishing any digital initiatives. A digital maturity evaluation is a

proven tool to engage an organization around digital transformation effectively. The objective is to assess the current digital maturity of a company and to identify and describe the gaps to the target picture. The definition of the holistic target picture is based on two dimensions: the digital intensity (the “what”) of the company and digital transformation enablers (the “how”).

2. To focus digital investments ...

... the management needs to provide a clear picture about the areas where digital transformation will bring the most significant value for the company in the future. Having a clear picture about how change through digitalization will affect the core elements of the business, the management needs to support a digital corporate strategy

and culture, align the top management team, establish a digital transformation office and clearly define the related budget.

3. To sustain the transformation ...

... the insurance company needs to secure the required digital skills and capabilities, talent development, acquisition or through partnering with companies that bear the required skills and technical capabilities. To ensure the success of the transformation, incentives and rewards need to be aligned accordingly and the status needs to be measured, monitored and iterated regularly.

4. Mobilize the organization ...

... to develop high organizational motivation along the digital

transformation, the management needs to signal their ambition and engage employees periodically in the transformation process. Encouraging digital behavior and evolving the culture of the whole company is a critical factor to succeed in becoming a digital insurance company of the future.

Despite the significance of digital technologies and associated opportunities, most insurance companies still have a way to go. Technology is playing a key part in the process; however, much more important for successful digital business transformation is the leadership team: creating a clear and compelling digital vision, driving change and managing employees. ■