DIGITAL TRANSFORMATION CAN BE A MISNOMER

LET'S CHANGE THAT

Digital transformation is a common phrase within insurance that has many meanings – not all of them good. When looking at specific examples of digital transformation, we can pinpoint what it is (and what it is not) in a contemporary context. Understanding the context makes it easier to define an approach for achieving digital transformation, compared to building software that may improve operational efficiency, but fails to 'move the needle' on real transformation.

An excellent example of what we mean by work that isn't promoting digital transformation is core system replacement. While software vendors have solid core systems, and are spending more time focusing on some of the topics in this paper, their main priority is system of record. For us, this is a critical aspect of enabling (and in some cases disabling) digital transformation but is not, of itself at this point, digital transformation.

The following are major digital transformation trends that are revolutionizing the property and casualty insurance industry.

TREND 1: DIGITIZING THE END-TO-END CUSTOMER JOURNEY

Insurance customers expect intuitive, automated, and fast self-service omnichannel experiences. If customers are unhappy with their experience, they can (and do) change providers. Insurance providers overwhelmingly view customer experience (CX) and engagement as top strategic initiatives, and are working to improve CX through enhancing their digital capabilities and digitizing end-to-end customer journeys.

Digital transformation is happening throughout the financial services industry, and insurance companies can take cues from what's happening elsewhere. In 2016, Bradesco, Brazil's second-largest private bank, launched Bradesco Next, a digital bank targeting Brazilian millennials. At Next, every customer journey is 100 percent digital, and the platform uses artificial intelligence to enables self-service journey[1].

After launching Next, Bradesco initially attracted prospects through online advertising campaigns on YouTube, Facebook, and Instagram along with partnerships with companies like Uber. In their first quarter of operations, 30,000 Brazilians opened accounts with the digital bank. Bradesco wanted a higher percentage of people that downloaded the Next app to sign up for an account, prompting them to make changes to their account opening process. Bradesco also changed their credit scoring process and fee structure, providing more millennials access to credit and making Next a free platform[2].

Through offering compelling, easy-to-use digital services, Next has been hugely successful. They are expected to reach at least 1.5 million clients in 2019, and 80 percent of clients are between the ages of 18-34. In addition, around 77 percent of Next clients did not have an existing Bradesco account before opening a Next account[3].

Lemonade launched in 2015, as a mobile-first artificial intelligence (AI) powered P&C insurance carrier. Lemonade's AI technology enables them to digitize insurance processes and eliminate paperwork, resulting in faster service. Lemonade offers a rapid application process. Customers answer questions about their property and items they want to insure and receive a quote in seconds. Lemonade's first notice of loss (FNOL) is chatbot based,

1. https://www.genesys.com/blog/post/bradesco-engaging-with-digital-banking-customers-is-next
2. http://iupana.com/escuchar_post/bradesco-changes-credit-scoring-fee-structure-to-drive-next-sign-ups/?lang=en
3. https://www.bnamericas.com/en/news/bradescos-digital-bank-could-top-growth-expectations

and after a customer submits a claim, the chatbot rapidly reviews the claim, cross-references it with the customer's policy, runs anti-fraud algorithms, sends wiring instructions to the bank, and informs the customer their claim has been closed. In 2017, Lemonade set a world record for paying a claim in three seconds with zero paperwork[4].

Digitizing the customer journey is a worthwhile investment, given its ability to increase customer acquisition, satisfaction and retention. Digitization also has additional benefits, including automating manual tasks, and improving operational efficiency.

TREND 2: TELEMATICS AND DATA-DRIVEN DECISION MAKING

Insurers are using telematics to provide customers with more automated and personalized experiences across the insurance lifecycle. Telematics refers to any device which monitors an asset (like a car or heavy equipment) through collecting data on the asset (like its speed or location). Insurers can use data from telematics devices to uncover customer insights and provide their customers with more personalized (digitized) experiences.

Insurers are also using telematics as a risk management and fraud prevention tool. If customers know insurers are monitoring them, they are less likely to engage in risky or fraudulent behavior. For example, drivers whose vehicles are being monitored by their insurer are probably more likely to drive safely, preventing possible accidents. Drivers are also less likely to falsely claim they were injured in an automobile accident if their vehicle collected data from the crash that indicates a low chance of any bodily injury[5].

Another application of telematics is usage-based auto insurance. Telematic software installed in an insured's vehicle allows the insurer to monitor driving habits, including factors like the number of miles they drive and any periods of rapid acceleration or hard braking. As a result of this monitoring, insurers can reward drivers who demonstrate good driving habits or who drive shorter distances with lower insurance premiums.

Progressive is a leader in telematics due to their telematics-driven program 'Snapshot' program. Through this program, Progressive installs a Snapshot device in a customer's car that monitors how many miles the customer drives, when they drive, and how often they slam on the breaks. Customers deemed low-risk drivers then save up to 30 percent off Progressive's

standard rates. Today, Progressive offers its Snapshot program via a mobile app; when a user is driving, the mobile app runs in the background and tracks their behavior. Insureds can then enter the app to view their driving stats and rating and see personalized tips for how to improve their score[6].

Telematic devices can also improve the claims process. For example, if a customer has a telematic-based device in their vehicle and gets into an accident, the device can provide insurers meaningful data about likely damage and the probability of bodily injury. Telematic devices can initially detect the seriousness of an accident and automatically dispatch emergency responders, which estimates show can shave many minutes off emergency response times, improving the outcome for bodily injury claims in some cases.

Swiss insurance company Zurich Insurance partnered with connected car solutions provider IMS to offer claims-as-a-service (CaaS) software to improve its claims process. CaaS is telematic software that delivers comprehensive information about each accident their customers get into directly to Zurich. This information includes the vehicle's speed and direction, G-forces, vehicle rotational movement, directional change, and a second-by-second depiction of the accident. Zurich has used telematics data as evidence when conducting fraud investigations to determine if the cause of a driver's injury was an auto accident. Additionally, liability investigations are enhanced by telematics, enabling a more accurate picture of an accident to either support or oppose driver testimony. Through using CaaS software, Zurich has been able to reduce claims costs and further automate their claims processing process, which has enabled reductions in premiums for policyholders.
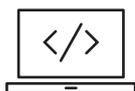
digitizing the end-to-end customer journey   telematics and data-driven decision making   new products and services

4. https://www.prnewswire.com/news-releases/lemonade-sets-new-world-record-300386198.html
5. https://www.intellimec.com/insights/claims-processing-telematics-insurance
6. https://www.retaildive.com/ex/mobilecommercedaily/progressive-finally-takes-snapshot-into-modern-age-with-mobile-app

TREND 3: NEW PRODUCTS AND SERVICES

Insurers are expanding their product and services offerings to increase customer satisfaction and retention and keep up with changing customer needs. New products such as identity theft protection, specialized car insurance for ride-sharing drivers and passengers, and usage-based insurance have recently entered the market.

INSHUR is a mobile-first provider of commercial auto insurance to private and rideshare drivers (especially Uber and Lyft) in New York and the United Kingdom. Private hire drivers, such as Uber and Lyft drivers, had traditionally experienced difficulty when purchasing specialist insurance. Now drivers can manage the entire insurance lifecycle on INSHUR's mobile app and can to obtain a quote and purchase a policy in minutes. INSHUR offers competitive rates and uses risk and pricing calculations, as well as data such as average tips, location, and driver ratings, to reward safe driving[7].

Slice launched in 2015 as a digital platform that offers usage-based insurance. Usage-based insurance enables customers to insure items only when they are in use. For example, Airbnb hosts can purchase a policy that insures their property only for the nights they have guests[8].

Trov is a digital insurance solutions provider offering usage-based insurance for single items. Trov's on-demand mobile app allows its user to protect and unprotect personal items. Users can go onto their mobile app, add items like cameras, computers, or musical instruments, and then swipe to insurance or uninsured their chosen items[9].

Insurance providers will continue to offer new digitally-driven products and solutions to innovate and keep up with customer' changing needs.

DIGITAL TRANSFORMATION APPROACH

Digital transformation can become a search for shiny, insurtech objects without a disciplined, business-driven approach. This approach is linear (even if iterative) and must include:

1. Business strategy
2. Corporate capabilities
3. Technical architecture
4. Technical ability

While a business strategy can be impacted by digital, (e.g., new products) the business strategy is generally independent of how you achieve it. For example, instead of claiming "we need to use telematics," the conversation should begin with reducing the loss ratio. Instead of claiming "we need a mobile app," it should start with understanding customer (or business partner) requirements and pain points. Digital is not a strategy; it's a means to realize your strategy.

Any strategy that includes digital requires people. Those people all operate within the landscape of your organization, and that landscape can shift with digital - that's where capabilities come in. Think of capabilities like a map, they allow you to identify how and where digital can impact the way people work. Thinking of capabilities like a map also helps you understand the effect on those individuals from an organizational, change management perspective. Note that in between the strategy and capabilities, you'll do some customer journey mapping and design thinking, to understand how to realize that strategy.

Technology can enable or hinder business strategy. Without an open technical architecture, you cannot enable many digital technologies (at least not without creating a big technical department). For example, if you're working to lower your expense ratio by creating a self-service mobile application that allows insureds to understand their policy or claim, but the underlying policy and claims systems cannot expose that data, you'll be stuck. Having an open architecture is essential.

Execution is as important as strategy. Just as you would never build a strategy without business experts you shouldn't build anything digital without digital experts. An honest evaluation of the current state of your technology team, helps you avoid mistakes (noting you'll probably still make some mistakes). Consulting digital experts doesn't mean you need to hire a busload of consultants, but it may mean supplementing the technical staff for some period until they can work independently. The good news is that most technology people want to learn digital if they don't know it already, so the path to self-sufficiency should not be overwhelming. Even in a situation where a vendor solution is involved, this is still important because that vendor (or vendors) requires management and informed management is more effective.

There is a great deal of activity going on under the auspices of 'digital transformation,' but there is; unfortunately, a lot less actual digital transformation going on. This is, in part, because companies are chasing solutions instead of solving insurance problems. By following the steps just outlined, you can avoid 'shiny object syndrome' (i.e., pursuing cool solutions that may not help your business) and move your business forward.

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7. https://www.reinsurancene.ws/uber-and-inshur-partner-to-provide-digital-insurance-services/
8. https://slice.is/homeshare/
9. https://www.timesfreepress.com/news/edge/story/2019/apr/01/power-tools-trov-on-demand-insurance-mobile-a/491322

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