

CAPCO

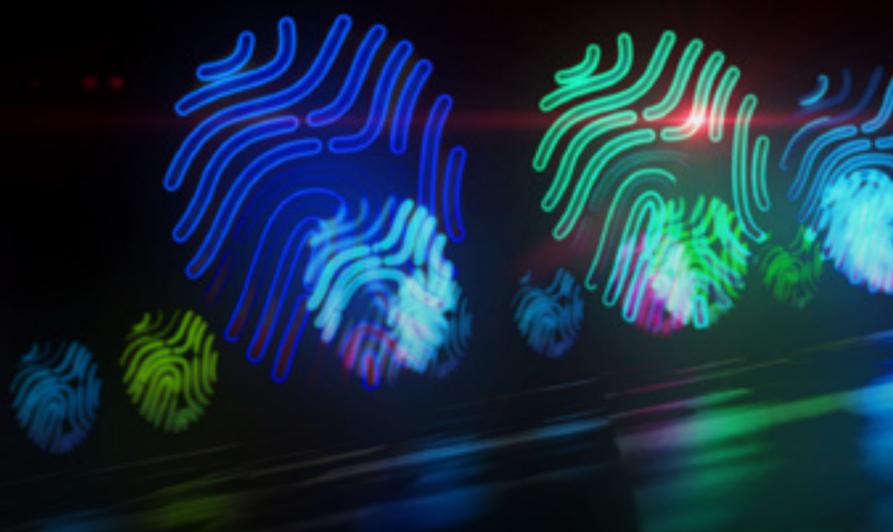
a wipro company

THE CAPCO INSTITUTE
JOURNAL
OF FINANCIAL TRANSFORMATION

TECHNOLOGY

How to deliver the benefits of digitalization as an incumbent in the insurance industry?

BARBARA LIEBICH-STEINER



INSURANCE

#54 NOVEMBER 2021

THE CAPCO INSTITUTE

JOURNAL OF FINANCIAL TRANSFORMATION

RECIPIENT OF THE APEX AWARD FOR PUBLICATION EXCELLENCE

Editor

Shahin Shojai, Global Head, Capco Institute

Advisory Board

Michael Ethelston, Partner, Capco

Michael Pugliese, Partner, Capco

Bodo Schaefer, Partner, Capco

Editorial Board

Franklin Allen, Professor of Finance and Economics and Executive Director of the Brevan Howard Centre, Imperial College London and Professor Emeritus of Finance and Economics, the Wharton School, University of Pennsylvania

Philippe d'Arvisenet, Advisor and former Group Chief Economist, BNP Paribas

Rudi Bogni, former Chief Executive Officer, UBS Private Banking

Bruno Bonati, Former Chairman of the Non-Executive Board, Zuger Kantonalbank, and President, Landis & Gyr Foundation

Dan Breznitz, Munk Chair of Innovation Studies, University of Toronto

Urs Birchler, Professor Emeritus of Banking, University of Zurich

Géry Daeninck, former CEO, Robeco

Jean Dermine, Professor of Banking and Finance, INSEAD

Douglas W. Diamond, Merton H. Miller Distinguished Service Professor of Finance, University of Chicago

Elroy Dimson, Emeritus Professor of Finance, London Business School

Nicholas Economides, Professor of Economics, New York University

Michael Enthoven, Chairman, NL Financial Investments

José Luis Escrivá, President, The Independent Authority for Fiscal Responsibility (AIReF), Spain

George Feiger, Pro-Vice-Chancellor and Executive Dean, Aston Business School

Gregorio de Felice, Head of Research and Chief Economist, Intesa Sanpaolo

Allen Ferrell, Greenfield Professor of Securities Law, Harvard Law School

Peter Gomber, Full Professor, Chair of e-Finance, Goethe University Frankfurt

Wilfried Hauck, Managing Director, Statera Financial Management GmbH

Pierre Hillion, The de Picciotto Professor of Alternative Investments, INSEAD

Andrei A. Kirilenko, Reader in Finance, Cambridge Judge Business School, University of Cambridge

Mitchel Lenson, Former Group Chief Information Officer, Deutsche Bank

David T. Llewellyn, Professor Emeritus of Money and Banking, Loughborough University

Donald A. Marchand, Professor Emeritus of Strategy and Information Management, IMD

Colin Mayer, Peter Moores Professor of Management Studies, Oxford University

Pierpaolo Montana, Group Chief Risk Officer, Mediobanca

John Taysom, Visiting Professor of Computer Science, UCL

D. Sykes Wilford, W. Frank Hipp Distinguished Chair in Business, The Citadel

CONTENTS

RISKS

- 10 How the insurance industry is fighting climate change and transforming itself by doing so**
Ludovic Subran, Chief Economist, Allianz SE
Arne Holzhausen, Head of Economic Research's Insurance, Wealth, and ESG team, Allianz SE
- 16 The impact of extreme cyber events on capital markets and insurers' asset portfolios**
Martin Eling, Director, Institute of Insurance Economics, and Professor in Insurance Management, University of St. Gallen
Werner Schnell, Researcher, Institute of Insurance Economics, University of St. Gallen
- 28 Assessing the economic impact of climate change**
Jérôme Jean Haegeli, Group Chief Economist, Swiss Re
Patrick Saner, Head Macro Strategy, Global Economic Research & Strategy, Swiss Re
- 34 The future of insurance: Personalized, digitalized and connected**
Matt Hutchins, Partner, Capco
Ernst Renner, Partner, Capco
- 48 What drives policyholders' relative willingness to pay?**
Florian Klein, Corporate Strategy Manager, Helvetia Insurance Group
Hato Schmeiser, Professor of Insurance Economics and Risk Management, University of St. Gallen
- 62 Strategies for responding to pandemic risk: Removal and/or redistribution**
Paula Jarzabkowski, Professor of Strategic Management, University of Queensland and Bayes Business School, City, University of London
Elisabeth Krull, Postdoctoral Research Fellow in Strategy, Bayes Business School, City, University of London
Mustafa Kavas, Lecturer in Strategic Management, University of Sheffield
Konstantinos Chalkias, Senior Lecturer, Department of Management, Birkbeck, University of London
- 70 Pandemic insurance: A portfolio management approach**
Alexis Louaas, Postdoctoral Researcher, CREST-Ecole Polytechnique
Pierre Picard, Professor of Economics, CREST-Ecole Polytechnique
- 76 Using risk analytics to prevent accidents before they occur – the future of insurance**
Montserrat Guillen, Full Professor, Director of the Riskcenter, Universitat de Barcelona
Alberto Cevolini, Associate Professor, Department of Political and Social Sciences, University of Bologna
- 84 Economic policy in a world where inflation, production, and productivity are mismeasured and misleading, and where macro-models cannot work effectively**
Steven W. Kohlhagen, Former Professor of Economics, University of California, Berkeley
D. Sykes Wilford, W. Frank Hipp Distinguished Chair in Business Administration, The Citadel

TECHNOLOGY

98 Innovation as a competitive advantage – experiences and insights from Baloise

Alexander Bockelmann, Group Chief Technology Officer, Baloise Group

104 Artificial intelligence and digital transformation of insurance markets

Christopher P. Holland, Professor of Information Management, Head of Data Analytics, and Co-Director of TECHNGI, Loughborough University

Anil S. Kavuri, Research Associate and Visiting Lecturer, Loughborough University

116 The changing face of insurance

John Pyall, Senior Product and Wordings Manager, Great Lakes Insurance SE, Munich Re

124 How to deliver the benefits of digitalization as an incumbent in the insurance industry?

Barbara Liebich-Steiner, Chief Digital Officer and Head of Digital Strategy & Solutions, UNIQA Insurance Group

128 How IoT can disrupt claims processes

Jörg Tobias Hinterthür, Former Head of Smart Home Innovation Lab, Zurich Insurance

132 Lloyd's Blueprint Two – the building blocks for industrializing AI in insurance

Alvin Tan, Principal Consultant, Capco

138 How digital capabilities can drive innovation in life insurance and annuities

Paula Nelson, Co-Head of Individual Markets, Global Atlantic Financial Group

142 Bridging the gap between medicine and insurance: How to leverage data, artificial intelligence, and neuroinformatics for insurance and financial risk management

Anitha Rao, CEO and Founder, Neurocern, and Board-Certified Geriatric Neurologist, Department of Neurology, University of Toledo College of Medicine

Mark Weindling, Chief Technology Officer, Neurocern

Paul Ridgeway, Strategy, Chief Financial Officer, Neurocern

Liz Kennedy, Project Manager, Neurocern

Harris A. Eyre, Chief Medical Officer, PRODEO, and Co-Lead, Neuroscience-inspired Policy Initiative, OECD

Paulo Pinho, Vice President and Medical Director of Innovation, Diameter Health

148 The future of insurance companies: Prospects from an interview study

Claudia Lehmann, Professor, Digital Innovation in Service Industries, and Executive Director, Center for Leading Innovation and Cooperation (CLIC), HHL Leipzig Graduate School of Management

Thomas Zwack, Partner, Capco Germany

Simon Meier, Innovation Scout, ERGO Group AG

Tim Mosig, Research Associate, Center for Leading Innovation and Cooperation (CLIC), HHL Leipzig Graduate School of Management

152 Open innovation – enabling insurers to adapt and thrive

Matt Connolly, CEO, Sønr

Matt Ferguson, Managing Partner, Sønr

REGULATION

160 Insurance and the journey towards carbon net-zero

Richard Roberts, Investment Director – Global Insurance, abrdrn

166 Regulating insurtech in the European Union

Pierpaolo Marano, Professor of Insurance Law, Catholic University of the Sacred Heart, Milan, Italy, and University of Latvia, Riga, Latvia

Michele Siri, Jean Monnet Professor of European Union Financial and Insurance Markets Regulation, Department of Law, University of Genoa, Italy

178 An emergency health financing facility for the European Union: A proposal

Simon Ashby, Professor of Financial Services, Vlerick Business School, Ghent University

Dimitrios Kolokas, Doctoral Fellow, Vlerick Business School, Ghent University

David Veredas, Professor of Financial Markets, Vlerick Business School, Ghent University

192 ESG and the insurance landscape

Charles Sincock, ESG Lead, Capco

Hugo Gouvras, Senior Consultant, Capco

200 The unintended consequences of macroprudential regulation in insurance and banking: Endogenous financial system instability induced by regulatory capital standards

Periklis Thivaos, Partner, True North Partners LLP

Laura Nuñez-Letamendia, Professor of Finance, IE Business School



DEAR READER,

Welcome to edition 54 of the Capco Institute Journal of Financial Transformation.

In this edition we explore recent transformative developments in the insurance industry, through Capco's Global Insurance Survey of consumers in 13 key markets, which highlights that the future of insurance will be personalized, digitalized, and connected. Other important papers cover topics high on global corporate and political agendas, from ESG and climate change to artificial intelligence and regulation.

The insurance industry has been undergoing transformation in recent years, with insurers responding to the needs and expectation of tomorrow's customers, for products that were tailored, flexible, and available anytime, anyplace, and at a competitive price.

COVID-19 has accelerated such change, forcing insurers to immediately implement programs to ensure they can continue selling their products and services in digital environments without face-to-face interaction. New entrants have also spurred innovation, and are reshaping the competitive landscape, through digital transformation.

The contributions in this edition come from a range of world-class experts across industry and academia in our continued effort to curate the very best expertise, independent thinking and strategic insight for a future-focused financial services sector.

As ever, I hope you find the latest edition of the Capco Journal to be engaging and informative.

Thank you to all our contributors and thank you for reading.

A handwritten signature in black ink, appearing to read 'Lance Levy', with a stylized, flowing script.

Lance Levy, Capco CEO

HOW TO DELIVER THE BENEFITS OF DIGITALIZATION AS AN INCUMBENT IN THE INSURANCE INDUSTRY?

BARBARA LIEBICH-STEINER | Chief Digital Officer and Head of Digital Strategy & Solutions, UNIQA Insurance Group

ABSTRACT

This article highlights the transformational journey of the author, the Chief Digital Officer of UNIQA Insurance Group, one of the major players in the insurance industry in Austria and CEE, during the implementation of UNIQA's digital strategy and transformation of the way the company does business in order to stay relevant in the digital world.

The four essential dimensions of digital transformation and their impact on the current hybrid work environment will also be addressed.

1. INTRODUCTION

The message is clear for anyone who cares to listen: "The pace of change has never been this fast yet will never be this slow again!"¹ The exponential growth of technological possibilities versus the logarithmic development of large organizations is a huge challenge for stagnating and traditional industries such as banking and insurance.

A recurring theme I have observed while driving transformation and building state-of-the-art digital solutions for the past 20+ years in the financial services industry is that technology – even the best and most innovative – always acts a (powerful) enabler but is not the driver of real transformation, and that change based solely on technology only takes you so far. When building the first corporate customer portal for a major banking group with headquarters in Vienna, Austria and 18+ subsidiaries in CEE (Central and Eastern Europe), I was in charge of the development of a state-of-the-art technical

platform. We included exciting and innovative features such as straight through electronic transfers, video chats, and online conferences, etc., which were groundbreaking in 2001. However, the really remarkable and sustainable achievement was that we completely transformed the way the bank approached and communicated with its customers.

Now, as the Chief Digital Officer at UNIQA Insurance Group, one of the major players in the insurance industry in Austria and CEE, I have the mission to develop and execute a digital strategy, and in 2016 led the effort to completely transform and digitalize the way we do business in order to stay relevant in the digital world.

This article highlights the process we went through to achieve our objectives of digitally transform UNIQA.

¹ Justin Trudeau, the Prime Minister of Canada, made this statement in his 2019 World Economic Forum Speech.

2. ACHIEVING TRANSFORMATIONAL CHANGE

The replacement of outdated legacy technology was only part of this endeavor. Technology only works as an igniter of change; real transformation starts with cultural change. UNIQA planted the “digital seed” right within the core of the company. In summer of 2016, we launched a new digital team within the existing organizational structures, endowing them with excellent talent, enough resources, and the guidance of our Group CEO and the Head of Group IT. We started the transformation from within. This was a risky path as the new, young, and innovative team had to face the forces of inertia head on.

There were two options for how to move forward with this new digital team:

- Placing the team outside of the traditional business and aim to develop innovative services very quickly, adding new digital products and services as an additional stream of income to the existing business model, or
- Transform and reinvent the business from within.

The first option promised faster results and probably more innovative solutions. The second one had the potential for a profound and sustainable cultural change and a deep-rooted transformation across the entire organization. Back in 2016, the clear message was: we want to transform our business from its core.

The advantage of driving digitalization from the inside was that UNIQA was able to develop in all digital dimensions:

- **Customer centricity:** understanding customer needs and being able to address their changing and growing demands – a crucial factor for sustainable revenue growth and acquiring new customers.
- **Automation:** achieving simpler, cost efficient, and high-quality processes by providing much greater levels of integration, transparency, and IT/business collaboration.
- **Corporate culture:** empowering employees through new ways of working, fostering a new team spirit, and collaboration. Working in cross functional and autonomous teams was vital to break up silos.
- **Innovation:** fulfilling innovation challenges in a large organization by encouraging a “startup” mentality.

The starting point was to deliver an exceptional customer experience that satisfies and even exceeds customer needs through the development of digital touchpoints. We placed the interaction with our customers at the heart of our customer facing applications. The possibility of gaining deep data-driven insights enables us now to identify patterns, make predictions, and respond to important moments in our customers’ lives. Our online touchpoints – the myUNIQA app and customer portal – are constantly tailored to the needs of the users. MyUNIQA provides context-sensitive information and services and will be extended by the integration of third-party services. Direct communication channels, such as secure messaging and video chat, enable high contact availability and help to translate the high quality of customer experience established through our local sales agents into digital channels.

As the automation and improvements of existing processes is incremental to a high-quality customer experience, the next step was to digitalize and simplify the most important customer journeys. This is an ongoing endeavor that is only made possible through close collaboration between business and IT. As a necessary precondition, a new work style was homegrown based on agile principles but tailored to the needs of UNIQA. The goal was to significantly enhance our digital capabilities and foster business agility. Starting with the top management, these new ways of working were spread out through the organisation. A “garage” format was set up to explore new topics and business models, encouraging participants from different parts of the company to join and become part of the new movement.

With the growing digital mindset, cross-functional collaboration, and the usage of new technology, UNIQA was able to promote innovation, improve efficiency and time to market. The startup mentality of small autonomous teams within the company facilitates fast paced innovation cycles and the possibility of proposing new approaches and testing them right away.

3. THE COVID-19 STIMULUS

The COVID-19 pandemic has increased the level of complexity and at the same time accelerated UNIQA’s path to become a digital and agile organization. As 95% of the complete workforce started to work from home within days of the first lockdown in Austria in March 2020, there was no time for training and preparation. This was a true test of the corporate

culture change initiated back in 2016. UNIQA's employees adapted quickly to the new rhythm and conditions of remote working. Internal surveys show that all groups of UNIQA employees report high job satisfaction levels in home office settings.

The next major challenge we had to face after the strict lockdowns were the “new normal” ways of working. With an ever-increasing number of vaccinated or frequently tested employees, the possibility of onsite work was back on the table. The motivation was manifold: better office infrastructure, more social contacts, easier face-to-face communication, and a change in scenery. On the other hand, there were colleagues who did not want to come back to the office due to various equally understandable reasons. As a consequence, we progressively faced the situation where part of our (agile) teams was at home, while the other part of the team was at the office, creating the “new normal” hybrid work set-up.

The new challenge was to determine how could we apply what we had learned throughout the lockdown, and leverage our successful approaches to this new hybrid set-up throughout the organization, to further ensure the high job satisfaction and productivity that we are so proud of?

The answer is to start with the right mindset. Courage, commitment, openness, focus, and respect are the five agile values that are key for the successful digitization of the company culture of UNIQA and perfectly summarize the key values that are important to create a successful work environment. Scaling a work environment to “hybrid” is no exception to this. It was the trust in our colleagues, the honest but respectful feedback, as well as openness and courage to break new ground and trying out new ways of working, that allowed us to celebrate successes.

As a result, one might be spoilt for choice when choosing the right set-up for meetings and the desired mode of collaboration in the future. Be it physically onsite, remotely, or hybrid, each set-up has its advantages and disadvantages. To select the most productive set-up, our philosophy is to always start with why. What is the aim of the meeting? Depending on the goal the suitable meeting set-up will change. When carefully examining the approaches of our teams across the organization, we found that creative or idea finding processes, involving a lot of discussion, are best done in a physical set-up. Examples for this are collaboratively developing a new

design for our group webpage or discussing entirely new features for the myUNIQA app to foster digital self-service for our customers. In contrast, meetings where interactions between team members are limited, e.g., a presentation or team jour fixes are suited for a remote set-up. While they take a lot of preparation, the hybrid set-up offers a valuable compromise. A hybrid set-up can combine the benefits of meaningful in-person conversation with the organizational flexibility of remote meetings. We continuously applied this method during user interviews even before the pandemic. Our researcher would sit together with a customer trying out our new information architecture on the webpage, while on the other side of the live stream our developers would gain direct feedback to their work and were able to relate better to real clients.

However, an absolute precondition to having this choice is enabling digital collaboration tools. This encompasses suitable hardware as much as the fitting software. Concerning the fitting software solutions, the company-wide streamlining of MS Teams as a communication tool and SharePoint to facilitate remote work environments also paved the way for the hybrid set-up in many ways. Following this, our remote team members were able to collaborate with onsite teams on shared documents during workshops or visualize input on the whiteboard feature, projecting said input on large screens in a meeting room for everyone to see. Regarding the suitable hardware, among other things, we are currently experimenting in training set-ups with 360° cameras, which display the entire room with all participants and automatically follow and focus on the moderators' movements. Here, financial investments really do make the difference.

We find the most significant point of leverage to enable a productive use of the hybrid set-up is the training of the team members. Especially, our engaged agile coaches and HR employees are the important facilitators of this transformation. As with every cultural change, it takes time, patience, and practice to foster an open-minded approach and the needed courage to try new methods and technologies after years of a different modus operandi. Encouraging and enabling UNIQA employees is an effort that is spread throughout all organizational levels. From special trainings for the executive management these efforts spread all the way to video tutorials for employees who might be challenged by a hybrid set-up, explaining how to best set up your remote workspace and how to best collaborate in this new environment.

4. CONCLUSION

In conclusion, technology alone is not sufficient to deliver the benefits of digitization to a company. For the UNIQA Insurance group, a deep-rooted cultural change from within the company, altering how we collaborate as employees and communicate with customers, was able to transform and reinvent the business sustainably. Understanding customer's needs, achieving cost-efficient high-quality processes, driving innovation, and empowering employees were the four pillars that helped make this change happen. Initiated by an

incumbent from within the company, we were able to cope with the sudden changes to the work environment during the pandemic. And now, in the aftermath of the pandemic, the organization continues to benefit from those sustainable changes, paving the way for the "new normal" hybrid working.

Through fostering the right digital mindset, supporting with agile methods, and enabling through state-of-the-art technology we will continue to transform our culture to prepare UNIQA for the next challenges to come.

© 2021 The Capital Markets Company (UK) Limited. All rights reserved.

This document was produced for information purposes only and is for the exclusive use of the recipient.

This publication has been prepared for general guidance purposes, and is indicative and subject to change. It does not constitute professional advice. You should not act upon the information contained in this publication without obtaining specific professional advice. No representation or warranty (whether express or implied) is given as to the accuracy or completeness of the information contained in this publication and The Capital Markets Company BVBA and its affiliated companies globally (collectively "Capco") does not, to the extent permissible by law, assume any liability or duty of care for any consequences of the acts or omissions of those relying on information contained in this publication, or for any decision taken based upon it.

ABOUT CAPCO

Capco, a Wipro company, is a global technology and management consultancy specializing in driving digital transformation in the financial services industry. With a growing client portfolio comprising of over 100 global organizations, Capco operates at the intersection of business and technology by combining innovative thinking with unrivalled industry knowledge to deliver end-to-end data-driven solutions and fast-track digital initiatives for banking and payments, capital markets, wealth and asset management, insurance, and the energy sector. Capco's cutting-edge ingenuity is brought to life through its Innovation Labs and award-winning Be Yourself At Work culture and diverse talent.

To learn more, visit www.capco.com or follow us on Twitter, Facebook, YouTube, LinkedIn Instagram, and Xing.

WORLDWIDE OFFICES

APAC

Bangalore
Bangkok
Gurgaon
Hong Kong
Kuala Lumpur
Mumbai
Pune
Singapore

EUROPE

Berlin
Bratislava
Brussels
Dusseldorf
Edinburgh
Frankfurt
Geneva
London
Munich
Paris
Vienna
Warsaw
Zurich

NORTH AMERICA

Charlotte
Chicago
Dallas
Hartford
Houston
New York
Orlando
Toronto
Tysons Corner
Washington, DC

SOUTH AMERICA

São Paulo



WWW.CAPCO.COM



CAPCO
a wipro company