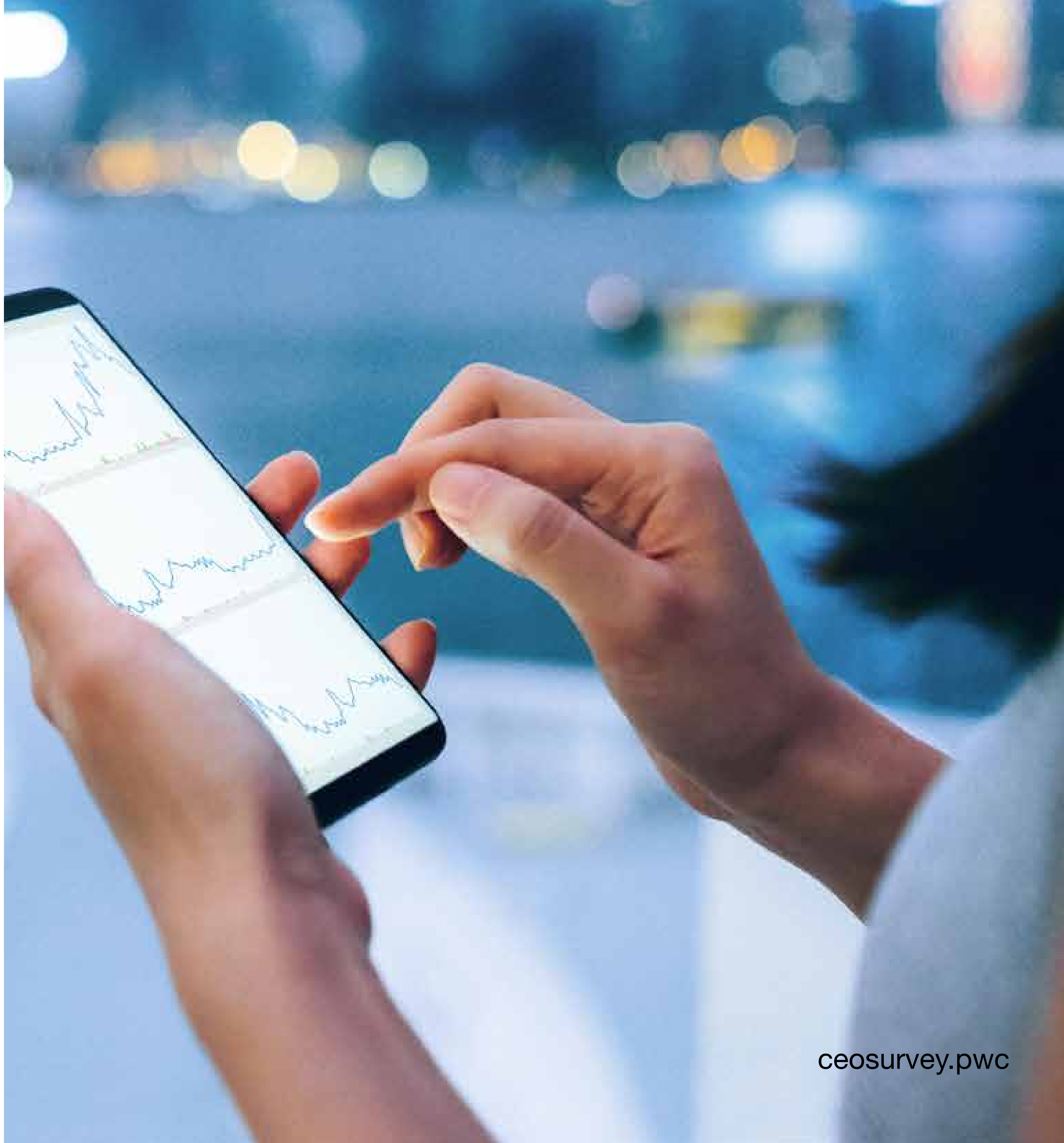
Insurance trends 2019

Digital transformation shifts from threat to opportunity

Part of PwC's 22nd Annual Global CEO Survey trends series



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From threat to opportunity

Until recently, insurance was one of the global economy's most disrupted sectors. The pace of technological change and shifts in consumer behaviour had led to a new wave of competition that many insurance companies found threatening. Yet, as shown by responses from 140 insurance industry leaders taking part in PwC's 22nd Annual Global CEO Survey, that initial trepidation over digital transformation is turning into optimism.

A clear sign of this shift in sentiment is the easing of concerns in the survey results, specifically about the speed of technological change and other disruptive developments (see Exhibit 1). Moreover, when asked about implementing their own artificial intelligence (AI) initiatives, which companies are using to create more seamless interactions with customers, more than 80% of insurance CEOs said that AI was already a part of their business model or would be within the next three years.

Although the current wave of new technology investment focussed first on improving customer experience and reducing costs, it is now shifting to new business models. The increasing use of sensors, AI and machine learning in combination has affected the practices of loss anticipation and compensation, moving them towards more proactive risk detection, intervention and prevention. The possibilities already can be seen in health monitoring and alerts from wearable devices, which are now being built into health coverage. Further examples include the use of Internet of Things (IoT) technology to reduce property claims and control crop damage risk, deploying integrated real-time data from ground sensors, aerial surveillance and satellite imagery. The win-win is better outcomes for policyholders and lower risks and claims for insurers.

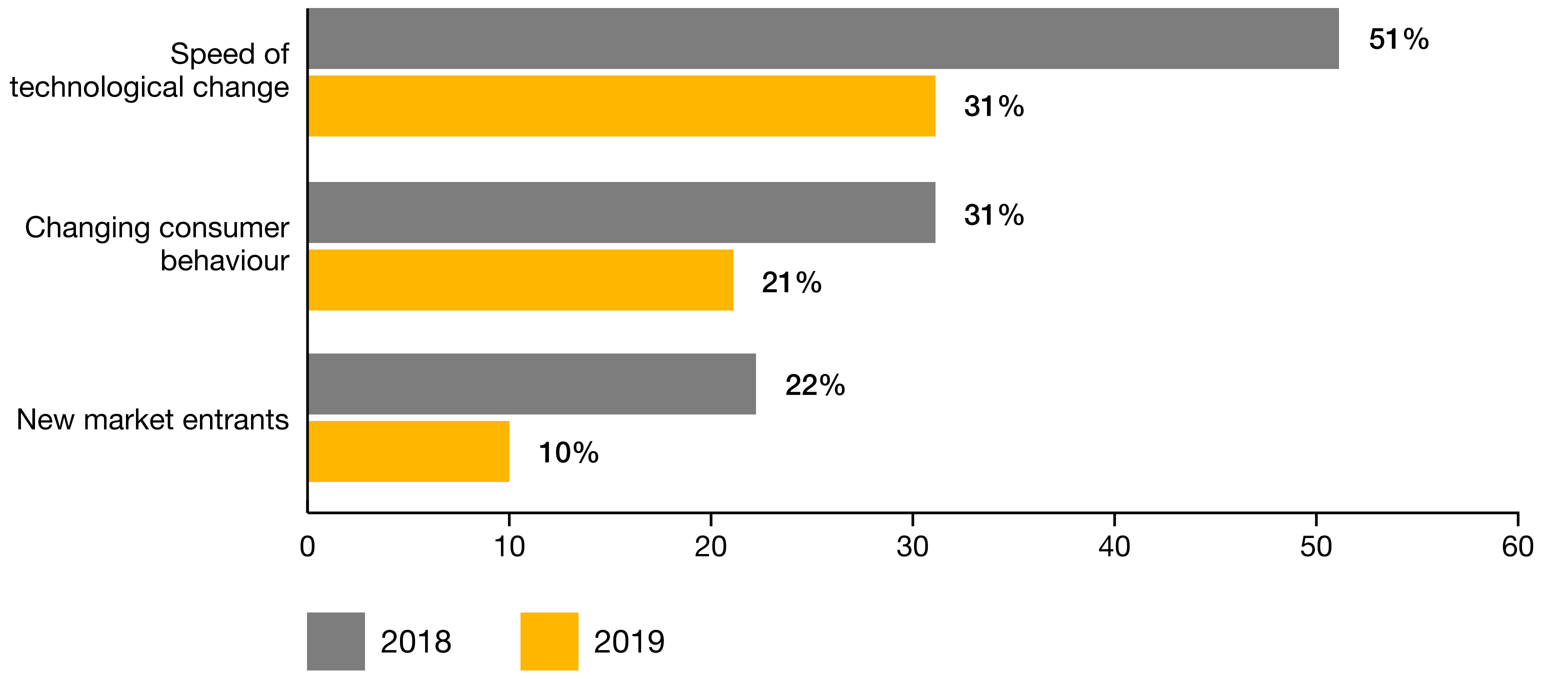
EXHIBIT 1

Concerns over disruption ease

QUESTION

How concerned are you about the following potential business threats to your organisation's growth prospects?

Insurance participants stating 'extremely concerned':



Source: PwC's 22nd Annual Global CEO Survey
Base: Insurance CEOs (140)

> Although insurance always has benefitted society by helping people provide for retirement and ill health and recover from catastrophe, preventing loss and incentivising healthy lifestyles further increases its social value.

Meanwhile, the intelligent interaction at the heart of new risk models is taking customer experience and engagement to a new level. For example, smart devices are embedding insurers in people's homes, enabling policyholders to benefit from real-time equipment monitoring and maintenance. This connectivity is strengthening policyholder trust, which is central to the insurance promise. Although insurance always has benefitted society by helping people provide for retirement and ill health and recover from catastrophe, preventing loss and incentivising healthy lifestyles further increases its social value. In all these degrees, the nature of the relationship between insurer and insured — even what we mean by 'insurance' — is changing, in a way that will be felt this year.

72%

Insurance CEOs relying on organic growth to drive revenue

70%

Insurance CEOs relying on operational efficiency to drive growth

Marking out the front-runners

As the CEO Survey findings highlight, some insurers are embracing the future and capitalising on opportunities much faster than others.

Until a few years ago, innovation was often stuck in labs and incubators and only slowly reached customers. Today, front-runners have shifted innovation into the heart of their businesses. A telling instance is the extent to which increasingly digitally aware compliance teams now collaborate in the development of new products, rather than simply vetting them at the end of the process. This shift in organisation and mind-set enables the companies to bring new products and services to market more quickly while at the same time challenging conventional ideas about insurance business models. The pace of change is also visible in the emergence of simpler products, which are available in modular units that are easy to understand and distribute digitally.

In turn, innovative companies are looking beyond the industry's traditional confines to participate in business ecosystems that cut across health, wealth, agriculture, financial management and beyond. The starting point is getting a holistic view of what customers want and need — solutions that encompass health, retirement provision and inheritance planning, for example — and then determining what capabilities are available in-house and with whom to partner to deliver the rest.

Many of the insurers out in front are located in Asia, where the young demographic is most open to digital transactions, especially mobile. The pace of development in much of Asia is also less encumbered by regulatory brakes on innovation or outdated legacy systems. Other notable developments in that region include easy and intuitive forms of distribution, facilitated by online retail giants.

When asked about their plans for driving growth over the next 12 months, CEOs tended to say they would rely on organic growth (72%) and operational efficiency (70%), and it's clear that both of these priorities should go hand in hand. This translates into a renewed emphasis on efficiency and cost reduction, freeing up resources with which to develop future talent, organisational capabilities and customer offerings. There is also growing interest in InsurTech capabilities, often in partnership but sometimes brought in-house, as a source of talent and innovation.

Strategy made real

How are new insurance models changing the relationship with consumers, and what will it take to succeed?

While customer-centricity has long been a prominent buzzword in the insurance industry, most insurers have struggled to truly understand what it means and how to deliver it.

That's changing.

Consumers want choice, flexibility, simplicity and personalisation in what they purchase, the channels they use, and how they interact with carriers. Both the amount and precision of customer intelligence are growing to make this possible. For the first time in history, insurers, aided by InsurTech enterprises and advances in digital technology, are innovating with customer needs and experience at the centre. Historically, the relationship with consumers has been built around renewal and claims payment. Today, digitally enabled consumers are open to a much more interactive relationship with carriers, which have the opportunity to offer services on an as-needed basis. For example, you can insure your car only when you drive, your golf clubs when you hit the links, and your camera when you go on vacation. Then, you can toggle off coverage via your mobile phone when you're back home. That's the kind of flexibility customers want. InsurTechs such as Trōv, Cuvva and Slice are making this on-demand, usage-based personalised insurance a reality.

Another distinct development is how insurers are partnering with technology companies and platform providers to create new value propositions for customers. ZhongAn's recently announced partnership with Grab is a great example of insurers and technology companies joining forces to offer customised insurance products to millions of consumers in Southeast Asia.

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Making headway

However, challenges remain. Many insurers are still trying to break out of their legacy shells. The tangle of legacy and complexity doesn't centre only on technology, but also on decision-making and working practices. Front-runners are decentralising decision-making from corporate centres to business units closer to customers. But that cultural shift takes time.

And, although technology often dominates the transformation agenda, success ultimately hinges on people. Developing new business models and competing in chosen ecosystems demand deep competency in data, analytics and AI. Yet, as more operations become automated, innately human capabilities that can't be replicated by machines — including creativity, empathy and leadership — are becoming an even greater differentiator. It's therefore troubling that more than 80% of insurance CEOs are extremely (36%) or somewhat (45%) concerned about the impact of skills shortages on their growth prospects. Exhibit 2 highlights the impact of these skills gaps on the cost of hiring talent and the ability to innovate and sustain quality standards and/or the customer experience.

Moreover, although insurers always have built their success on data, digital transformation and associated changes in customer expectations have heightened data's value. More than 90% of insurance CEOs highlight the importance of data in understanding customer preferences (97%) and the

EXHIBIT 2

Skills shortages hold back innovation and growth

QUESTION

What impact is 'availability of key skills' having on your organisation's growth prospects?

Asked of those who selected 'extremely concerned' for 'availability of key skills'.
Source: PwC's 22nd Annual Global CEO Survey
Base: Insurance CEOs (140)

decisions they make about managing enterprise risk (93%). Yet, only 10% of those who believe that data on customers' preferences and needs is critical or important say the data they receive is comprehensive. And only 39% believe that the data about the risks to which the business is exposed is comprehensive. CEOs also complained about the ongoing failure of data sharing within organisations, which reflects the still siloed nature of marketing, underwriting and claims.

Forging ahead

If you are an insurance executive, how can your business accelerate transformation and reap the rewards? In our view, there are five essential priorities for you to consider. They aren't mutually exclusive — indeed, recognising and addressing the interdependencies between them is a crucial part of making them work:

1. Reimagine your business

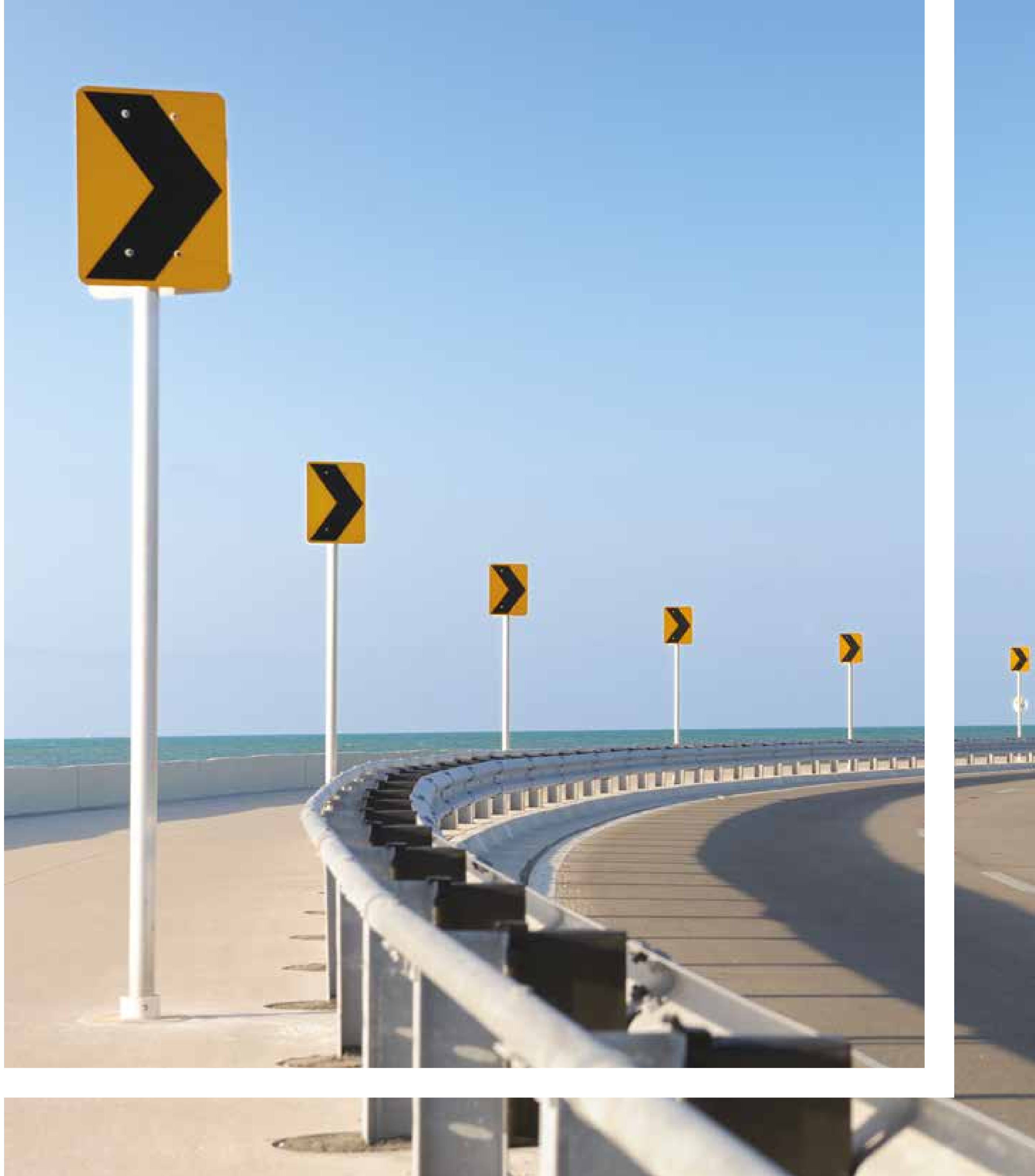
Digital transformation is opening up opportunities to develop deeper customer relationships and insights. But it's not a differentiator in itself.

The key to standing out is determining what your business does better than any other. In the short term, this might be cost/pricing competitiveness or claims settlement speed. But it's also important to look at openings for innovation in risk prevention and customer experience to transition to the future state in a commercially attractive way.

You then can identify and focus resources on the specific capabilities that can fulfil your customer promise. If you want to lead through innovation, for example, then it should sit in the centre of the business, not in an isolated lab or incubator.

2. Choose the ecosystem you want to serve

As opportunities open up beyond insurance and your business becomes both an orchestrator and a direct provider of products and services, it's important to judge what commercial ecosystem best plays to your strengths and relationships. For example, could equipment insurance extend into a maintenance service? As a pension provider, could you extend your offerings into care services, inheritance



planning or development of purpose-built retirement accommodation? Whatever you choose, you'll need to determine how to engage with your target ecosystem, with whom you might need to partner (i.e., who's the best match in terms of open platform functionality, data sharing and understanding of business costs) and how to cement customer and partner loyalty.

3. Simplify legacy systems to drive efficiency and create capacity for growth

The demands of transformation have to balance with the need to sustain existing business models and 'keep the lights on' using ageing legacy systems. But you can't continue to rely on slow and unwieldy capabilities when cheaper and more efficient AI, blockchain, cloud/SaaS, robotic process automation (RPA) and intelligent process automation (IPA) solutions are available — which, in addition to enhancing risk selection, can help reduce costs.

It's therefore important to simplify, selectively decommission and and shift legacy capabilities to new capabilities. Although modernising different components and integrating them into existing platforms can seem like the most pragmatic option, this can be difficult. The alternative is creating fully modernised capabilities in one go and, once they're trialled and refined, moving over customers from existing platforms.

4. Focus on talent development

If talent drives transformation, how can you foster a culture that inspires your best and brightest, and build, buy or borrow any necessary skills that are missing?

Although much focus is on which jobs RPA and AI will replace, it's more likely that elements of jobs will be automated and augmented. It's therefore important to look at how tasks will change (e.g., claims handling and settlement), how your staff can make the most of the freed-up capacity and how your company can harness technology to support this.

As you look to foster organisational buy-in, agility and customer focus, PwC's own experience highlights how up-skilling existing staff can be highly effective and motivational. We assessed our 250,000 partners and staff, found opportunities to enhance our collective digital skills and knowledge, and have seen both enthusiastic uptake for up-skilling and subsequent, noticeable improvements in our people's digital competence. Moreover, and just as important for insurers, is having a culture, purpose and environment that inspires and retains people from outside (e.g., as part of InsurTech partnerships or acquisitions).

5. Accelerate execution

As the velocity and complexity of change increases, execution and change management need to become core competencies. It's important to revisit how change is designed, plans are created and budgets are made and implemented, and move away from old-style implementation marathons in favour of a series of agile sprints. As data becomes increasingly critical, it's more important than ever to break down any operational and technological siloes that hold up data sharing and inhibit execution.

The insurance industry is used to big decisions, big system implementations and big product launches. But today's market requires trying and learning from lots of little decisions. Inculcating that culture into your organisation is challenging but essential in driving innovation and change.

Insurance is emerging as an innovator. There's currently a unique opportunity for companies to be distinctive, as trepidation about disruption turns to optimism.
The industry is ripe for change and the companies out in front are in a position to take advantage of an increasingly open and connected landscape.

The winners are differentiating themselves by envisioning customer needs beyond traditional insurance and have adopted a proactive approach to talent development and strategic collaboration. They're also distinguished by a readiness to embrace technology in order to create innovative business models, a recognition of data as their organisation's most critical asset, and an agile approach to execution and change management.

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About PwC's 22nd Annual Global CEO Survey

PwC conducted 3,200 interviews with CEOs over 90 territories. There were 140 respondents from the insurance sector, and 32% of the insurance CEOs reported an annual revenue greater than US$1bn.

Notes:

- Not all figures add up to 100%, as a result of rounding percentages and exclusion of 'neither/nor' and 'don't know' responses.
- We also conducted face-to-face, in-depth interviews with CEOs and thought leaders from five continents over the second half of 2018. The interviews can be found at ceosurvey.pwc.
- Our global report (which includes responses from 1,378 CEOs) is weighted by national GDP to ensure that CEOs' views are fairly represented across all major regions.
- The research was undertaken by PwC Research, our global centre of excellence for primary research and evidence-based consulting services: www.pwc.co.uk/pwcresearch

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