

DIGITAL DEMANDS: PREREQUISITES FOR SUCCESS IN AN EVOLVING INDUSTRY

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The insurance industry is made up of thousands of independent and interdependent companies interacting with customers, vendors and reinsurers scattered throughout the globe. From paper forms and actuarial tables to mobile apps and the Internet of Things, it has always been driven primarily by the collection and exchange of information. With each new advance, the use of universal standards and applied technology has helped to make the exchange of data more efficient and, ultimately, more effective.

Many insurers and reinsurers working with ACORD, like Swiss Re, recognize that a key priority is the development of Digital Standards. These standards will streamline and facilitate data exchange through next-generation technologies. Optimizing the impact of these emerging technologies will require applying them to new strategies, processes, and organizational capabilities. Research indicates that companies incorporating digital capabilities at the most fundamental level of their businesses show superior performance across key financial metrics.

The Digitization Imperative

It has become apparent the insurance industry is at a critical and uncertain inflection point. The global macroeconomic climate, hyper-maturity of key segments, and increasingly sophisticated consumer demands have combined to impose significant resource constraints on most insurers. In this environment, the potential impact of thoughtfully leveraged technology is unprecedented.

High-performing insurers have been acting on critical strategic imperatives to deal with the pressures currently facing the industry.

- **Consumerization** – Insurance purchasers' expectations are not shaped by the insurance industry alone, but by their experiences with online and app-based shopping across all industries. It is critical to recognize and adapt to this fundamental change in insurer-customer interactions.
- **Ecosystem integration** – Efficient internal information exchange is no longer enough to create competitive advantage. Successful insurers are able to integrate effectively with partners, vendors, and other third parties across the greater insurance ecosystem.

- **Data and analytics** – Mining, aggregating, and even analyzing data are largely solved problems for the insurance industry. The challenge now lies in developing the tools and techniques to leverage that data effectively at the moment of value.

Implementing digitization is the thread that ties these strategic imperatives together, allowing an entire industry to address them effectively. ACORD analysis has shown that while technology spending alone does not necessarily lead to high performance, proper alignment of strategic intent and capabilities with digital maturity unambiguously does. In fact, digitally mature insurers have achieved 2-4x times total shareholder return, premium growth, and earnings growth of their less digitized competitors.

Enterprise digitization across the entire value chain provides the flexibility and adaptability necessary to address emerging challenges and opportunities at the moment of value – for instance, when a customer is trying to bind coverage or to file a claim. Incorporating digitization as a fundamental component of operations is key to building an effective and successful strategic operating model.

Swiss Re started this journey 20 years ago with a publication on Electronic Data Interchange (EDI). It was in response to the increasing pressure of outsourcing Claims and Accounting, and the conclusion that using technology was the most sustainable way to become more efficient. The initial attempts were focused on Electronic Message Management. It was realized that only by sending and receiving structured information about premium and claims in a digitized form was this going to be effective.

Characteristics of Digitized Competitors

The insurance industry was an early adopter of computing technology. Early forays were focused on optimizing expenses by automating existing business processes. Later, insurers developed a more sophisticated understanding of technology's potential to not only cut costs, but to drive revenue in core business areas.

Today, the most successful insurers have progressed even further, developing methods for integrating operations and technology to create novel business models and enhance positioning. Leaders in this space have demonstrated several common characteristics:

- The merging of operations and technology to develop and deploy fundamentally new operating models.
- Merging business and technology to create differentiating capabilities – encompassing aligned process, organization, and technology attributes to increase strategic flexibility and operating adaptability.
- Positioning the business to take advantage of opportunities to expand into new products, customer segments, geographies, and channels.
- Realizing option value in strategy and tactics, an appreciation of value management as a key skill, and the prioritization of outcomes (e.g., timing, magnitude, and duration of cash flow).
- Embracing digitization as the most effective way to achieve and support change.

Achieving this level of technological effectiveness requires thoughtful resource allocation. Decisions about the investment of finite time, money, and talent must be purposeful and fully aligned with explicit strategic intent.

The Digital Transformation: Claims and Beyond

Claims is an area with high potential for the benefits of digitization. Recent research by ACORD, McKinsey, and others has shown the material positive impact of digital transformation across the claims function. Completed transformation efforts have driven measurable improvements in pure loss, loss adjustment expense (LAE), customer satisfaction, and claims-handling accuracy.



Superior performers in claims exhibit high levels of digital maturity. These insurers leverage technology to achieve higher rates of customer retention, satisfaction, and cross-selling, as well as superior financial performance.

The ACORD U.S. Property & Casualty Value Creation Study, for example, found that high-performing insurers are demonstrating a historically unprecedented ability to underspend in both pure loss and LAE. In the past, there was an inverse relationship between the two – i.e., underspending on LAE leads to overpayment of claims, and vice versa. And yet the most successful carriers this past decade have spent less than the industry average on both loss and LAE. They have done this by leveraging technologies like data and analytics, allowing them to operate more efficiently and effectively than their competitors.

By aligning business and claims strategies with technological capabilities, digitally mature competitors are able to achieve and sustain “informational economies of scale,” creating advantages across the value chain.

Over time, the capabilities that allow the processing of the input will be translated into an organized structure covering all aspects required to handle a (Re-)Insurance contract: Technical Accounting, Financial Accounting and Claims Movement.

To that end, Swiss Re joined several key industry members in 2007 to found the Ruschlikon Group, with its aim to streamline operational processes within the (Re-)Insurance industry by establishing digital standards and best practices in a strong partnership with ACORD.

Since then, the standards and system capabilities enabled by Ruschlikon and ACORD have helped Swiss Re to reach a higher level of digital maturity – e.g., a majority of its Claims, Technical Accounting and Financial Accounting transactions are now automatically validated and processed. More than 50% of the Claims and Technical Accounting submissions Swiss Re receives are handled in a digital ACORD-based format. This enables Swiss Re to automatically capture, validate and process these submissions with limited manual intervention, realizing efficiencies of up to 70%.

Navigating the Digital Journey

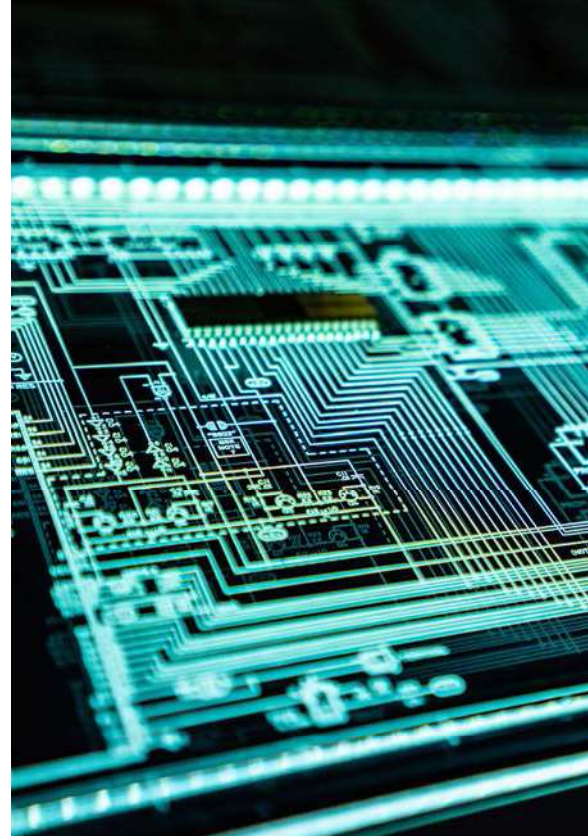
Insurance leaders recognize the inevitable role of technology in driving stakeholder value across carriers, brokers, agents, customers, and shareholders alike. However, most insurers limit their efforts to discrete, incremental change. Factors like limited budget and talent, risk aversion, complacency, and outmoded metrics present a significant barrier to change within our industry. To overcome this, insurers must embrace three key imperatives for executing digital transformation.

- **Change Management** – Digital initiatives must be enterprise-wide to achieve technological differentiation. Colleagues must understand the rationale, be measured and incented along the way, and be governed by an explicit plan.
- **Talent and Culture** – Not only is attracting and retaining high-skill/high-will talent critical, but a supporting culture must be in place. The “right team” sharing aligned values and structure is necessary to support meaningful change.

- **Tech-value Mindset** – Organizations must have the capabilities to identify, screen, select, and deploy winning technologies. Substantive relationships with third parties must be fostered to complement and extend internal capacity.

Moving forward, digitization of the value chain will be a baseline requirement for success in the insurance industry. By the time a technology laggard realizes it has been systematically underinvesting in digital capabilities, it may well be too late – with the required scope, time, and resources beyond the organization’s capacity. Firms that embrace digitization, incorporating it across the enterprise with a thoughtfulness of purpose, have positioned themselves for success in the current and future insurance environment.

Swiss Re foresees large potential in increasing the level of digitization and automation in the end-to-end business process. The aspiration for the next few years will be increasing the level of digitization and automation along the insurance value chain and to onboard the Placement and Underwriting processes. At the same time, we will look for ways to become even more efficient and effective in exchanging and processing the information already digitized now. The next generation of technology (Machine Learning, AI) will allow all of us to drive digitization and automation more independently forward, as the current model requires a commitment and readiness from both trading partners.



About the Authors



Bill Pieroni is President & CEO of ACORD, the standards-setting body for the global insurance industry. His career has spanned technology, operations, and top executive roles at several top insurers, brokers, and consulting firms, including Marsh, State Farm, Aon, IBM, McKinsey, and Accenture. He holds degrees with honors from the University of Illinois and the Harvard School of Business Administration. Bill regularly presents the results of ACORD research at dozens of conferences, board meetings, and executive sessions hosted by industry-leading organizations across the globe.



Nicole Kellenberger has been working for Swiss Re for 16 years. She began her career as an accountant, responsible for the Iberian and Latin American markets. In recent years, she has developed her leadership skills and technical expertise in reinsurance. In her current role as Global eAdmin lead, her priorities are focused on digitization and automation and the change management needed to go hand in hand with digital transformation. Together with her team, Nicole provides thought leadership to the markets and helps clients and brokers to become more efficient and effective as well as agile.



Sven Scandella in his role at Swiss Re as Head of IT P&C Business Management, is responsible for the design, maintenance and continuous improvement of the Operating Platform (covering Administration, Business Process Management and Analytics capabilities) for the P&C Business Management unit at Swiss Re. In his role, Sven strongly collaborates with the Business unit to design and run an efficient and effective Operating Platform that focuses on Digitization & Automation for data processing & validation. In previous roles, Sven led Operations Teams in the area of IT and Technical Accounting.