STRATEGY MEETS ACTION

DIGITAL TRANSFORMATION IN P&C INSURANCE:

Operationalizing the Strategy

An SMA White Paper

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Publication Date: January 2020

This white paper is based on SMA's ongoing research on digital transformation in insurance. ValueMomentum has purchased distribution rights.

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About This White Paper

This white paper is based on SMA's experience, research, and insights.

ValueMomentum has purchased the distribution rights to this research and white paper. This is not paid-for research.

THE DIGITAL TRANSFORMATION IMPERATIVE (WHY)

Drivers of Digital Transformation in Insurance

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If there is an overarching theme in insurance today, it is about digital transformation. When digital strategies began to surface earlier in this decade, a small percentage of insurers had a broad vision and comprehensive strategies. Now, SMA research shows that 100% of both personal lines and commercial lines insurers have strategic initiatives aimed at digital transformation across the enterprise. There is also general agreement as to **why** this has become such a central strategy in the industry. The drivers of change tend to fall into four categories: the rapid advancement of technology, the demands to improve customer experience and engagement, the rise of the platform economy, and the increasingly digital connected world.

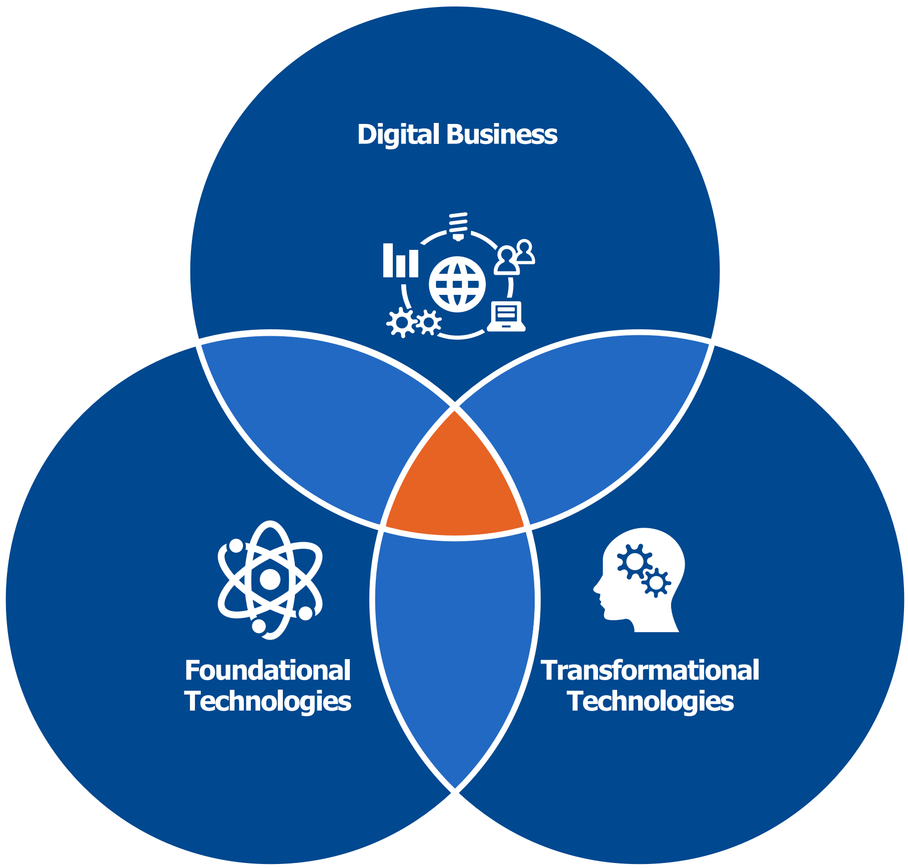
On the technology front, it is not just about the potential of technologies like the IoT, machine learning, blockchain, and others. The real motivation is the pervasive nature of technology today, the breathtaking speed at which progress is being made, and the approaches and experience that make it easier to implement complex technology solutions. Customers (including both policyholders and agents) expect that insurers will offer them improved experiences consistent with what they receive from other leading industries. The platform economy has become a dominant force in our world. Companies with a digital platform that connects those in need of a product, service, or skill with those that offer these things are prominent everywhere today – think of Amazon, Uber, Netflix, and many others. And the digital platform approach is reverberating through every industry, including insurance. Another major driver of digital transformation is what has become known as the connected world. The move to everything around us in the physical world being connected through smart devices and sensors has massive implications for P&C insurance. Ultimately, there is little debate that digital transformation is mandatory and critical for insurers, as virtually all insurers have jumped on the bandwagon. The challenge is in the journey – developing and executing along a roadmap over time to become an increasingly digital company. In other words, it is operationalizing the strategy that will characterize the winners.

The Digital Journey for Insurers

Companies in the industry are at different stages in their digital transformation journeys, as might be expected. The latest SMA research shows that while personal and commercial lines insurers differ in their focus areas and their plans, the industry at large is evenly split. About one-third are still in the strategy development phase, another third are in initial implementations, and the final third say they are farther along and have executed significant digital initiatives across the enterprise.

A framework that insurers have found useful in formulating digital strategy is depicted in Figure 1. This diagram highlights three main areas of focus: digital business, foundational technologies, and transformational technologies.

Figure 1. SMA Framework for Digital Transformation



Source: Strategy Meets Action 2020

Digital Business encompasses customer engagement, new business models enabled by digital, and the transformation of distribution, underwriting, claims, and other business areas by adoption of digital processes and technologies.

Foundational Technologies consist of the core systems capabilities, policy, billing, and claims, along with key technology solutions for portals, CRM, and data/analytics. Broader digital platforms are also foundational and fundamental to a digital transformation.

Transformational Technologies include a wide range of technologies that are advancing rapidly and have transformational potential for insurance. The Internet of Things, autonomous vehicles, wearables, blockchain, and many technologies in the AI family are already beginning to transform customers, their risks, and insurance operations.

It is extremely important to recognize the high value that lies in the intersection of all three areas (the orange area in Figure 1). Fusing foundational and transformational technologies to drive digital transformation in key business areas and across the enterprise is where innovation and differentiation are being created. An illustrative example would be where a portal (foundational tech) incorporates new user interface tech like voice or chatbots (transformational tech) to enhance the customer experience (digital business).

