Global Futures & Foresight

MAJESCO

Changing Insurance for the Digital Age

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Contents

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Overview

Players across the range of insurance industry segments are being confronted with deep-seated change in consumer behaviour, employee expectations, rapidly evolving technology and a quickening of the business environment. Opportunities will increasingly need to be ‘discovered’ since technology alone does not constitute a strategy nor is it plug and play in the sense that a new tech overlay cannot compensate for a fundamental legacy infrastructure – whether mindset, technology or organisational.

Change is being forced on insurers, whether they like it or not as several of the orthodoxies traditionally underpinning the industry are challenged and disrupted. Consumer expectations are increasingly being set in unrelated or adjacent industries, technologies allow start-ups to compete using customer-centricity as opposed to tradition as their value offering, whilst a new insurance paradigm is being crafted regardless of whether incumbents choose, or are able, to play in this area.

Growth and Demography Change

The world economy could double in size by 2042[1], albeit with a heavy slant towards emerging markets that could account for nearly two-thirds of global growth by 2021[2]. For carriers focussing on mature markets, granular personalization of offerings will become critical as the mass market stagnates. The U.S., Millennial market alone could exceed $7.2tn by 2025, and is the driving force behind increasingly customised capabilities based on unique customer journeys involving engagement portals and real-time personalized product delivery[3]. However, 69 percent of Millennials remain either actively disengaged or indifferent with their insurance carriers[4] yet Millennials are at the heart of small medium business growth, a growing underserved or unserved market.

Simply put, traditional products, the models that support them and the user interfaces provided do not conform with what Millennials experience and expect from their interactions with traditional providers. Centennials (Gen Z) are even more digitally oriented than Millennials, and by 2020 will experience a surge of spending power as they comprise roughly 25 percent of the global workforce[5].

Demographic change is also important at the industry level. 50 percent of the wider insurance workforce in the U.S. is set to retire between 2015 and 2025[6], yet 80 percent of Millennials report having limited knowledge and understanding of employment opportunities within the industry and only 2 percent of graduates are actively seeking jobs in it[7]. 91 percent of employees believe digital technologies could transform the way people in their organisation work, but across all industries only 43 percent are satisfied with their organisation’s reaction to digital trends[8]. Even among the over 60’s, 72 percent consider it important to work for a digitally savvy organisation.

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MAJESCO VIEWPOINT

Throughout time, the youngest members of society have traditionally been the early adopters of new technology.[i] Growing up without the baggage of "this is how we do things," they are more open to new ideas and trying new technologies that end up changing how they do things...which eventually spreads to the rest of society. For example, Millennials may have been the early users of social media, but members of Gen X have surpassed them as the heaviest users.[ii]

Millennials and Gen Z are the early adopters of our current, digital age. Both generations are digital natives. Millennials grew up in a world connected by the internet and Gen Z members are growing up in a world dominated by digital and mobile. Growing up with the capabilities enabled by these technologies as "normal" has helped shape the attitudes, behaviors and expectations of these generations, making it an imperative for insurers to provide these capabilities.

The growing use of new technologies across the generations is rapidly changing insurance product needs and expectations. Majesco's consumer and small medium business research studies, *The Rise of the New Insurance Customer* and *The Rise of the Small-Medium Business Insurance Customer*, found consumers across most generations are actively using or engaging in activities that represent new expectations and risks for the insurance industry ... highlighting the impact of this demography change.

[i] "The 5 Customer Segments of Technology Adoption," On Digital Marketing

[ii] Bromwich, Jonah Engel, "Generation X More Addicted to Social Media Than Millennials, Report Finds," The New York Times, January 27, 2017

The Shrinking and Shifting Future

All of this suggests a need for increasing strategic and future planning. Research, however, suggests an ever-shortening business horizon. Harvard Business Review concludes that the focus on defending business models rather than exploring new ones represents a significant loss in future options. Collectively, investors now value the future growth options of S&P 500 firms relatively less, by $1Tn[9], for which there are 28 insurers, of which 6 are health insurers, representing only 5% of the 500 firms. This would seem proof enough that a myopic focus generates less growth and value over the long term[10].

So how should you prepare for change?

Preparing for change:

- Carriers should look to people, before technology, as the starting point for change.
- Modernize and optimize your existing business to stay relevant with existing customers and fund your future business
- Develop new business models that meet the digital age needs and expectations and are the foundation of your future business
- Find ways to rapidly move from knowing to doing to minimize the ever-widening gap.
- Develop capabilities to create future offerings based on deeper levels of data granularity.
- For those insurers without the capability, time or expertise to run advanced segmentation, analytics and scenario planning in real time, partnerships with third parties will become key elements of survival.

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Disruption

The digital revolution is rewriting the rules of business, and with it, redesigning organizational and business model structures. However, only 11 percent admit feeling ready to craft more ‘future-proof’ organizations[11]. Many industry orthodoxies are increasingly irrelevant yet most insurers have been reluctant to reinvent themselves[12].

Technology and customer expectations are already radically rewriting models; almost half of insurers’ business models are already in the process of being disrupted by new competitors[13]. However, less than 25 percent of insurance executives expect their operating models to be disrupted by changes in consumer behaviour[14]. This perception gap cannot be addressed through the provision of technology alone, but aligned with strategic re-organisation and customer-centricity, technology can help insurers avoid the widening gap between their own orthodoxies and consumer expectations. In effect, insurers must disrupt themselves – a path many are on, albeit at different stages.

MAJESCO VIEWPOINT

Are we acting upon our knowledge of the insurance industry and market trends? Or, are we simply educated observers? Each day we see the impact of change in the insurance industry … new products introduced, new channels established, new services offered, new business models launched and much more. But Majesco’s research, *Strategic Priorities 2017: Knowing vs. Doing*, shows there is a gap between what many insurers know about the changes going on around them and what they are doing about them … the Knowing – Doing Gap. The report highlights that turning awareness into doing, with actionable initiatives is elusive, creating an ever-widening gap between leaders who are taking action and those who are not. And in a fast paced era of change and disruption, the ability to be a fast follower is fading rapidly, putting insurers at risk of becoming irrelevant.

Our research showed that companies who reported higher growth over the past year were also much more likely to have been focused on strategic initiatives such as new channels, new business models and new products. In fact, higher-growth companies were 17 times more likely to have also been developing new business models compared to companies that had lower growth. Innovative growth strategies matter.

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Customer Expectations

Acknowledging the role and strength of changing customer behaviour expectations, and then acting upon it across the organisation, is central to future success. Customers are increasingly demanding personalized, on-demand, digital insurance services and in many cases these go beyond the realm of traditional products; for example, 56 percent say it's important for insurers to provide personalized advice that could help them reduce the risk of loss or injury[15].

Promisingly, 48 percent of insurers have or plan to build a customer-centric hub[16]. The way we will buy, build and use technology is changing rapidly, which means the insurance teams and ecosystems that build it and run it will need to change too. Customer-centricity will need to inform all organisational changes and could take many forms, including the innovative use of data to give back to the customers who generated it. 69 percent of U.S., consumers believe they should own any data collected through their smart devices[17]. Indeed, 97 percent are happy for insurers to use their data if it used to offer them a wider range of services[18]. Data proficiency could allow carriers to further blur insurance lines and create a 'halo' concept whereby a single policy covers all types of risk. Since customer needs are becoming more fluid and often '...combine expectations encompassing multiple needs[19],' they will drive a wave of new products – whether delivered by incumbents or new entrants. This will require aptitude in change management and use of design thinking in the process of organisational renewal.

MAJESCO VIEWPOINT

Majesco's consumer and small medium business research studies, *The Rise of the New Insurance Customer* and *The Rise of the Small-Medium Business Insurance Customer*, revealed there is significant market potential for new technology-enabled insurance and insurance-related offerings among both consumers and SMBs, based on survey respondents' ratings of "very likely" and "likely to try" them. In addition, a neutral "swing group" could significantly enhance their potential demand, depending on how well insurers execute on their new product and service value propositions.

Sharing Economy

Perhaps the defining feature of the sharing economy is less the 'sharing' aspect than the use of technology to reduce costs by enabling smooth P2P transactions. Peer-to-peer insurance, whilst creating a new market, also raises data competency questions for incumbents. Issues of adverse and self-selection or pricing are likely to feature since the hybrid risks posed by the sharing economy could reveal the inadequacy of existing models[20]. On the other hand, P2P insurance could restructure the entire market; in part through its introduction of adjacent technologies such as blockchain. P2P insurance platforms may begin to use smart contracts to set claims and match demand between consumers in an online market. Clearly, the sharing economy does not represent a plug and play technological solution; rather it should be seen as a consumer-centric redesign of culture and the core technologies and processes that support it.

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The phenomenon of sharing/borrowing more and owning less of your own and others' assets has exploded into the economy and is creating new risks and new growth opportunities, as noted in Majesco's research, *A New Age of Insurance: Growth Opportunity for Commercial and Specialty Insurance in a Time of Market Disruption*. Over the last century, owning things was the indicator of making it to the middle class. But today, as Millennials enter the middle class, they are reversing this indicator by owning less "stuff" and putting more emphasis on having greater experiences. The advent of the digital age and the sharing economy has made this easy. The sharing / collaborative economy is estimated to grow from $14 billion in 2014 to $335 billion by 2025.[21]

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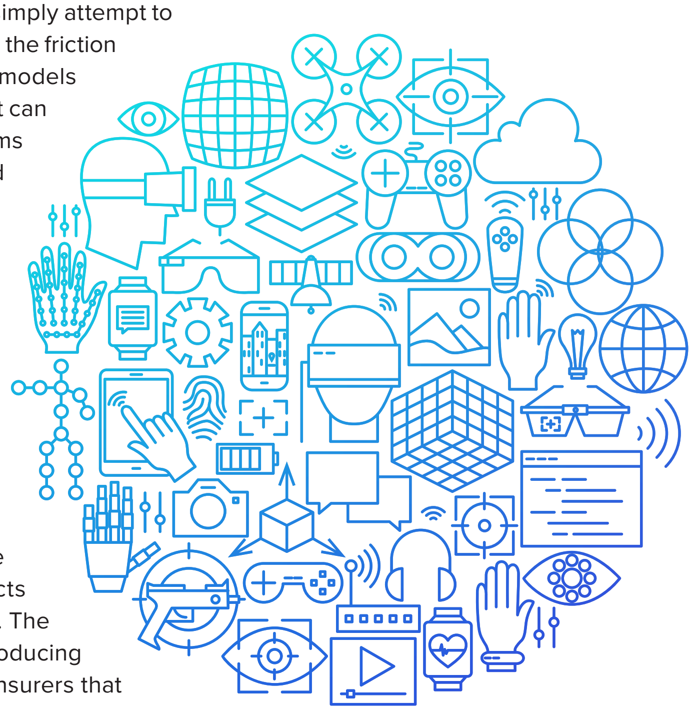
Change Management

Many insurers admit to a lack of change management, with only 47 percent able to organize their transformation strategy into a cohesive list of interdependent initiatives. Furthermore, 42 percent confess that their organizations lacked the change management experience required to fulfil their agendas[22]. The very structures designed to minimise risk often limit innovation and complex legacy systems – whether technological or cultural, are hard to overturn as proven by banks. There is a real risk for banks of being pecked to death (with 80 percent of existing banking revenues by 2020 at risk[23]) by the very platforms they eschewed for years. This is largely due to their misidentifying the problem - most banks continue to mistakenly think that mobile and digital is a project to invest in, not a cultural transformation[24].

Technology

In the report, *What's Hot in Technology in 2017*, the raft of new technologies represents new ways of doing things yet the risk remains that many will simply attempt to overlay digital on old processes and systems. This danger, and the friction that can result from dynamic technology grafted onto static models will result in disruption and challenges. The opportunities that can flow from them meanwhile will continue to shape ecosystems and industries and the winners within. This is a strong word of caution and warning for the insurance industry because over the last decade or so, many insurers have focused on transforming their businesses by replacing their legacy core systems with modern solutions surrounded by digital and data solutions.



But the rise of new customer expectations does not necessarily align with these transformations. Many insurers did not anticipate the needs of a new generation of buyers and so they continued to transform their businesses based on traditional business assumptions. The generational gap reflects an insurance industry steeped in tradition, where business models, business processes, channels and products are becoming rapidly irrelevant for the younger generations. The result is an open door to fresh, culture-savvy competition, producing a likely shift in market leadership with customers selecting insurers that best meet their needs and expectations.

MAJESCO VIEWPOINT

Majesco's *Future Trends 2017* report notes the shift for technology is toward a "platform" in the Cloud. The platform offers a ready to use solution with pre-configured and integrated content as well as an ecosystem of "add-on" partner solutions that extend value to the core solution. This shift is similar to what has happened in other industries or solutions such as Amazon, Netflix, Facebook, Uber and others that are now challenging traditional encumbents in various market segments. Consider the shift by Salesforce to a cloud platform and the rich ecosystem of partner solutions that extend value, or Workday in the battle for the HR enterprise platform market with SAP and Oracle. Both Salesforce and Workday are Cloud platforms with a SaaS model. This shift to Cloud platforms is based on the principles of an on-demand, pay-as-you-need model.

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Data, Analytics and Data Talent

Many insurers face significant challenges transforming their organizations into analytical enterprises. Data quality remains a concern for 79 percent of insurance CEOs and only a third are confident that their algorithms provide value[25]. Improving data quality is essential and should involve establishing standards that help drive business confidence and smart decision-making. Big data can be paralysing, hence the need to build appropriate structures around core expertise and an overarching vision for the company.

A mere 30 percent of insurers believe that senior management has the necessary skills to make full use of data and analytics[26] and nearly half of all companies report not having the digital skills they need[27]. Demand for data science talent could rise a further 28 percent by 2020, creating potential bottlenecks for industries, perhaps especially those without compelling employment propositions[28]. With the automation of much analytical work, this situation could be somewhat remedied by more appropriate use of cognitive technologies or even blockchain. Applying technology to risk management could change the insurance paradigm, and requisite skills, significantly[29].

Insurance is ultimately a data-based effort to predict the future based on the past. One issue introduced by the emerging range of new technologies is that there is no past data to go on since blockchain, the IoT and cognitive technologies allow us not just to do things differently, but do different things. Nevertheless, there are steps of progress that can be achieved by building a solid, reliable and real-time consumer data profile. The first is that predictive analytics can be enabled in a contextual manner and thus create a degree of consumer-centrism still absent from much of the industry. The next step could see the implementation of new technologies since strong data is a prerequisite for many of them.

MAJESCO VIEWPOINT

Majesco's report, *Winning in a New Age of Insurance: Insurance Moneyball*, notes that, more than ever, data and analytics are key enablers of the insurance industry's renaissance, as new market leaders shift to digital-age business models that provide products and services focused on the customer. Insurers who stick to the traditional, pre-digital age formula of relying on internal, historical data used only for pricing and underwriting, will put their businesses at risk … both in terms of retaining profitable business and capturing new markets and customers.

New Greenfield and start-up competitors are rising from within and outside every industry, capturing the post-digital age business opportunities of the next generation of buyers by leveraging new sources of data and using sophisticated analytics to reinvent insurance. Companies that make the shift to leverage new data and analytics are positioning themselves to be the market leaders in the post-digital age. Those who do not make the shift risk not only the loss of customers, but also market share and relevance in a new age of insurance.

Consumers Data as an Asset

Not only will capitalising on such data require a new approach to data stewardship within silos and significant organisational and technical change; it will compel discussion of thorny ownership issues. Accenture notes that around 50 percent suggest their own business isn't doing enough to establish customer trust when it comes to personal data use[30].

This lack of trust may be compounded by evidence from manufacturing companies, 60 percent of which claim customers have begun to monetise their data. This trend could well deepen; 66 percent of consumers view their personal information as valuable, and 65 percent are willing to share it with companies only in exchange for some form of value[31]. Consumers will increasingly realise that data is cash, and should be treated as such.

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Virtual Reality (VR) and Other User Interfaces

Data visualisation will also become a point of possible differentiation, not just to show consumers data in different ways but to be able to potentially use data visualisation to create new value. Allianz, for example, '…uses VR to highlight the possibility of home accidents to prospective policyholders, vividly illustrating defective appliances, floods and other hazards[32].' Liverpool Victoria (UK) likewise allows customers to explore a virtual house while 'learning' about the many components of the home, such as cars and pets, that can be insured.

Blockchain

Blockchain technology is already impacting insurance markets[33], with twenty blockchain start-ups now offering insurance services of one form or another[34]. More are likely since potential savings are significant at $5-10bn in the reinsurance sector alone[35]. Blockchain adoption could further drive new and emerging models of insurance, including P2P insurance, parametric insurance and microinsurance. New distribution methods like P2P could restructure the entire market - for example Dynamis is a P2P supplemental unemployment insurance protocol that '…uses the policy holders' social capital to replace underwriters[36].'

Internet of Things (IoT)

75 percent of insurers believe that industry boundaries will dramatically blur due to the IoT and other platforms[37]. Sources of competition, risk and potential collaboration will shift too, yet only 17 percent of insurers intend to invest significantly in business model transformation in the period to 2019[38] despite new entrants already using platforms to prioritise customer experiences[39].

Ubiquitous networked devices could facilitate proactive, preventive maintenance, provide insight into customer behaviour[40], and nudge business models. Indeed, 83 percent of insurers believe digital is powering the shift from selling products to selling outcomes[41]. Insurers could reposition themselves as trusted advisers and less as a source of claims payments, with data ubiquity able to identify risk in real time changing the way insurance works.

Exploration of this area — either with a third party or in-house should be a high priority; external tech firms are already well placed to launch IoT platforms that inherently deal with risk. That this doesn't replace what insurance currently does misses the point. Coverage is evolving into a broader value chain with new types of products and services, in addition to new risk pools[42].

MAJESCO VIEWPOINT

The number of connected devices has exploded, providing a flood of new data. But one of the drawbacks to having so many sensors is that most insurers' core systems are built around traditional and low volume transactions, not the high volume that IoT, mobile or social data demands. To enable the rapid innovation cycles and speed to market demands, software must be re-architected and re-engineered around microservcies to create business and technical environments that adapt to market changes. Innovative, "digital first" companies like Google, Amazon, Salesforce, Workday, Uber, Airbnb and Netflix have successfully used this architecture and technology that is disrupting industries. Instead of large monolithic applications like policy, billing and claims, the approach splits these applications into set of smaller, interconnected services in a Cloud platform.

Autonomous Vehicles

Forecasts for autonomous vehicle uptake and usage vary quite significantly, with a number of barriers such as cybersecurity complicating the matter. One Stanford economist, for example, predicts that by 2030, 95 percent of people won't own a private car[43]. Less imminent mass adoption scenarios could see auto insurance revenues drop 22 percent by 2030 and 71 percent by 2050[44]. McKinsey even suggests that only around 15 percent of vehicles sold in 2030 could be fully autonomous[45]. Such a benign rate of adoption still changes the auto insurance paradigm however; another way of looking at it is that around 76 million vehicles with a high level of autonomy are expected to be sold globally over the next 19 years[46], which implies around five primary car users for every car. Such a large increase in implied sharing, whether through use of robot-taxis or some other medium, reframes the wider automobile ecosystem — and the types of insurance needed — entirely. Who, and what, is insured or assumes liability will change, most likely trending towards manufacturers and away from consumers.

Indeed, it is estimated that insurance for autonomous vehicles, including three new business lines, could add $81bn to the industry by 2025[47]. The notion of autonomous vehicles creatively destroying existing markets extends to the rising probability of passenger drone development, which could further change the concept of mobility and the associated insurance need[48].

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Cybersecurity

There is a compelling argument that before insurers can craft cyber solutions, they need themselves to develop resiliency. Indeed, just one on five banks and insurers are confident they could detect a cybersecurity breach[49]. Remediating this situation will likely involve an inflow of new expertise, ecosystem partners and technologies. However, exposure to cyber-risk can't be fully eliminated in a digital world, even with current best standards of precaution; indeed. it is this very premise that creates such a potentially lucrative market for insurers over the coming years[50].

Allianz for one foresees a worldwide cyber insurance market of more than $20 billion by 2025[51], a figure that could prove very conservative given the gravity of the cyber threat potential. SAP notes that only 25 percent of companies treat cyber-risk as a significant risk even though data breaches are expected to total $2.1Tn in 2019[52]. In another study, one third of US manufacturers admitted to no cyber-risk assessments of their industrial connected devices[53].

The importance of a solid data architecture and even proficiency in cognitive computing in creating effective pricing and implementation should not be underestimated. There is likely a need for new cyber assessment tools, whilst insurance companies may '…open cybersecurity departments and offer pre-breach and post-breach services, such as security architectural analysis, monitoring, incident response, forensics and more[54].' Such an approach will require significant organisational change, investment and informed leadership but it present a significant chance in mitigating some of the burning bridges traditional insurance models are predicated upon.

InsurTech

This requires a new strategic approach; something that only 23 percent of insurance CEOs believe applies to their innovation plans[55]. 64 percent of insurers, meanwhile, are bracing for competition from external digital disruptors[56]. Better collaboration, both internally and within the insurtech ecosystem could be key in improving customer experience as part of broader organisational change[57]. Three quarters of insurance companies are now involved in some sort of fintech or insurtech activities – indicating an awareness of both the opportunities and challenges inherent in insurtech; whilst one fifth have active partnerships[58].

MAJESCO VIEWPOINT

Majesco's *Greenfields, Startups and InsurTech: Accelerating Post-Digital Age Business Models* report notes, the digital age shift is pushing a sometimes slow-to-adapt industry by challenging the traditional business assumptions, operations, processes and products, separating the "continents" of insurance into two distinctively different business models. The business models of the past 50+ years (based on the business assumptions, products, processes, and channels of the Silent and Baby Boomer generations) will soon be an ocean away from the business models of the next generation (including the Millennials and Gen Z, as well as many in Gen X). To close the gap and avoid extinction on a pre-digital island, the insurance business models of the past will need to quickly chart a course toward next generation risk needs and expectations. These new models will be a new generation of Greenfields and startups backed by venture capital, and also, increasingly by existing insurers or reinsurers.

Preparing for Change:

- A plurality of models is likely in the future, featuring differing levels of required competence in given areas. Plan carefully as to what you want to become.
- Rising to the competitive forefront requires companies to rethink their business models and realign them with the customer needs and the expectations of those who will be their customers for the next 10-20 years, not those from the past 10-20 years.
- Focus on how change will impact the organization, using behavioural methodologies and data metrics.
- Technology is a key driver of customer centric business, but not in and of itself sufficient[59].
- Disruption is an ongoing event, requiring a new mindset that treats change as continuous rather than a single event[60].

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A New Insurance Paradigm

British research found that four-fifths of insurers didn't think the industry was innovating enough to cope with new risks such as cyber and reputational damage. However, these new risk vectors may provide the basis for future profits[61]. Building expertise in these areas is required, but absent digital leadership, options are somewhat narrowed. Almost three quarters of executives believe insurance had failed to show leadership in digital innovation but nearly half think the solution is acquisition[62]. Although leading to complexity, such an approach could give insurers the room they need to experiment.

Burning Bridges - Obsolete Products

It is not just the processes and internal structures (the how) that form part of insurance's burning bridge problem, it is the very nature of what they do. At the heart of this should be an upfront acknowledgment that '…coverage is evolving into a broader value chain with new types of products and services, in addition to new risk pools[63].'

In addition, several pillars of traditional insurance are crumbling – whether thanks to technology or deep-seated socio-economic changes. For example, driverless cars shift the existing model, with liability tilting insurance toward automakers, and away from drivers or car owners. As a result, The Bank of England has predicted the UK motor insurance market could shrink 41 percent by 2040[64]. Other changes could impact a wider range of insurers; globally, there could be a retirement savings shortfall of $400Tn by 2050 - an amount equivalent to five times the size of the global economy[65]. The end of retirement, or at the very least a significant redrawing of its meaning and universality, will disrupt many orthodoxies – from policy design to talent and finance.

MAJESCO VIEWPOINT

The interconnectedness of the demise of these pillars of traditional insurance exerts a multiplier effect on the risk landscape, creating a domino effect on other risks and products as reflected in Majesco's report, *A New Age of Insurance: Growth Opportunities for Commercial and Specialty Insurance in a Time of Market Disruption*. What is different than in the past, however, is that disruption in one industry has a ripple effect that disrupts the risk landscape of other industries and creates additional new risks. Recognizing that this domino effect occurs is critical to developing appropriate new product plans that align to these shifts.

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Genomics et al

In 2016 after analysing several thousand DNA samples, a UCLA geneticist declared an ability to identify biomarkers, translatable signals in the bloodstream, that could be used to predict mortality. Such breakthroughs can in turn, prompt insurtech commercialisation and form significant challenges to incumbents' business models. Indeed, one such company, GWG Holdings, states that with such biomarker information it is intent on disrupting and reinventing the life insurance market[66]. The wider point, beyond the immediate challenge to life insurers, is that technological breakthroughs in hitherto unrelated industries are starting to challenge and disrupt traditional business models. A greater appreciation of wider technological trends is clearly needed, but equally as pressing is the ability to respond to a multitude of possible futures stemming from the confluence of several technological, industry and social-economic drivers.

Digital Identities

Through our prodigious use of social media, ecommerce and other online activities, most now have some form of digital identity, whether we know it or not. Such digital identities are already being explored by banks as a new asset class that they could protect, and it is likely that as we automate larger parts of our lives – whether it be in the home or through virtual personal assistants, we will need a system to verify and secure our digital identities. Insurance lines that rely on personal data are strongly exposed to hacked, manipulated or even 'incomplete' digital identities. Due diligence in data collection and investments in strong data protection could drive up costs for insurance companies[67], yet this area also holds promise as a potential new market distinct from the wider corporate cybersecurity and cyber-risk markets. Ultimately, success in areas such as digital identity, as part of a wider initiative, could enable insurers to reposition themselves as trusted advisers and less as a source of claims payments.

Risk Management

New technology and the use of predictive and cognitive technologies in risk management are driving significant change. As a result, insurers must now decide whether to embrace this data-driven risk management environment or to realign their position to elsewhere in the expanding value chain and allow InsurTech or brokers to occupy the risk management space.

The very nature of risk is changing, in many cases it is becoming more foreseeable while in others, becoming more volatile. New vectors of risk are emerging which require the seemingly incongruous goals of standardising new market standards and the ability to personalise service. Along with cyber risk, digital identities, environmental, large catastrophe and flash type risks all look to provide potentially rich markets in which to establish and operate[68].

MAJESCO VIEWPOINT

There is a shift from risk product to risk prevention services that can provide new sources of revenue that will mitigate the decline of traditional premium revenue due to the reduced risk environment. Majesco's consumer research found that interest in services that prevent claims is substantial for Gen Z and Millennials at 40%-50%, followed by Gen X at 25%. However, the swing group could provide a dramatic shift to 70%-80% across these three generational groups, highlighting a growing need for services to prevent or eliminate risk and claims versus products that pay claims based on the occurrence of perils.

With today's technology such as smart devices using Internet of Things technology, homes can be protected from fire and water damage, factories with equipment can alert operators to safety issues and maintenance needs, construction companies can use wearables to track and monitor employees for safety, and trucking or shipping companies can monitor all shipments to eliminate theft or loss due to other factors. All of these highlight the need for digitally enabled risk management services.

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Creating Value

South African insurer Discovery as well as European carriers AXA and Zurich have used their data competencies to push into new markets and niches. New entrants are doing likewise, as well as creating new markets. Trōv's lifestyle app, for example, '...collects data about customers' possessions, constructs a list of things to be insured, and then provides machine-enhanced risk pricing for single-item coverage.' Trōv provides micro-duration policies, charges micro-premiums and uses chatbots to manage claims[69].

MAJESCO VIEWPOINT

Across a number of Majesco reports, we note the disruption and changes that are reshaping the marketplace, and creating unprecedented growth opportunities for insurers in terms of new risks, new markets, new customers, and demand for new products and services. Small and medium businesses are uniquely at the forefront of this change and at the center of new business creation, business transformation and growth in the economy. New technologies, demographics, behaviors, and more, will fuel the growth of new businesses and industries over the next 10 years. Many of these businesses will grow within completely new industry types, setting the stage for new insurance market expansion with the advent of new risks and growth opportunities. We're seeing new products that can be deployed on demand, and the blurring of traditional industry boundaries, where insurance is being embedded in the purchase of products and services. InsurTech is re-shaping this new digital world and the traditional insurance value chain.

Regardless of products or services, the customer's experience is a key factor in determining whether they will do business with an insurer. Increasingly, customers are demanding a personalized experience, representing the shift from mass standardization of insurance to the micro-personalization of insurance, requiring broader data and sophisticated analytics to truly understand and respond customer needs. A new generation of insurance buyers with new needs and expectations creates both a challenge and an opportunity. Insurers that can see the change and opportunity will set themselves apart from those that do not. The time for understanding, planning and execution is now to capture these new opportunities. Those who recognize and rapidly respond to this shift will thrive in an increasingly competitive industry to become the new leaders of a re-imagined insurance business.

Preparing for Change:

- Reorient capital and strategy away from defending traditional models and stake a claim in some of the emerging markets that will define tomorrow's insurance landscape.
- Decide on an appropriate role for your organisation in the new insurance ecosystem, even on an individual market basis.
- Seek partners in markets deemed attractive as a way of generating expertise, insight and entry points for possible commercialisation.

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Organising for Success

Structures and processes within the organisation must address the key problems insurers face, from customer experience to technology. 85 percent of insurance managers believe intelligent machines will make them more effective[70] yet few have drawn up plans for how they will integrate automation into their existing structures. Fukoku Mutual Life Insurance in Japan has done so, replacing more than 30 employees with IBM's Watson and saving the company $1.2m a year in salary costs[71]. Five years from now, 35 percent of skills considered important in today's workforce are forecast to have changed[72] and rapidly advancing cognitive technologies could make it near impossible to predict what skills will be in demand even ten years out[73].

What is left of jobs and skills will likely be central to insurers' value proposition. Work will also likely take place in teams – it is forecast that by 2027 most work will be project-based with agile teams comprising internal and external talent, dominating[74]. This will require a new assessment of individual roles and how they fit together to drive strategy. Companies seem ill-prepared for this; they spend $1Tn on the customer journey, yet one thousand times less analysing employees' journeys[75].

Rethinking IT

Existing IT departments may not have the expertise or time to handle the sizeable technical aspects of digital transformation. Insurers could therefore look to partner or invest in third parties with relevant expertise – especially when it comes to technologies such as blockchain[76]. Successful blockchain use will itself require other technologies to be leveraged concurrently – from advanced D&A to AI. Implicit in this is a renewal and redesign of existing processes and the introduction of new services and sources of value.

Networked Organisations

In its analysis of successful companies, MIT Sloan correctly notes that '…history warns us that mastering digital technology won't determine which companies become corporate winners. Instead, making the necessary organizational and leadership changes will[77].' There is little evidence – across all industries – that structures supporting future leadership are in place; whilst the future is digital, only 5 percent of organisations possess a strong digital leadership development program. 65 percent of all organisations have no such program[78], and 30 percent of organisations admit to having a weak or very weak leadership pipeline[79].

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Practical Steps:

- Insurers should scan the horizon five to ten years in the future – perhaps using a Three Horizons model as a guideline.
- Change should be measured, and based around customers and employees.
- Take an outside-in approach. Integrating external ideas and thinking can create new value propositions.
- Crafting the right structures for partnerships to flourish will be critical.
- The insurance value chain is expanding. New entrants in these areas will eventually threaten core business.
- Establishing capabilities, via acquisition, partnership or talent is key.
- Without agile and attentive leadership and key future expertise in place, transformations cannot happen.
- Organisational renewal, new pathways to talent acquisition and retention and a commitment to people-centric policies and processes are all good places from which to embark on wider digital change.

MAJESCO VIEWPOINT

It is a new age of insurance — a digital age. Each and every day, insurers must recommit to their business strategies and their renaissance journeys. They must avoid falling into an operational trap or resorting to traditional thinking. Rising to the competitive forefront requires companies to rethink their business models and realign them with the customer needs and the expectations of those who will be their customers for the next 10-20 years, not those from the past 10-20 years. However, most organizations can't simply flip off one switch (traditional business model and products administered on traditional systems) and flip another on (new business model and products on modern, flexible systems that will handle digital integration and provide better data acquisition and analysis). So, the shift will require steps. Those steps will operate as both a bridge and a proving ground, while the traditional system is still operational as a firm foundation as the new foundation is being constructed. Insurers need to know, plan and execute across these three paths:

- Keep and grow the existing business by modernizing legacy and moving to cloud
- Optimize the existing business with digital engagement and data
- Create a new business model for a new generation of buyers through a Greenfield or startup

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About Global Futures and Foresight

Global Futures and Foresight is a research and consulting organisation that helps organisations be better prepared to embrace change, innovate and develop new strategies and solutions and helps clients to avoid the risk of being blindsided by external disruptive change.
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Before establishing Global Futures and Foresight, an independent futures research firm, he created and ran the Unisys internal Think Tank, The Global Future Forum. Prior to this he was head of strategic marketing for their $2bn global financial services business.

David and his organisation have been engaged by some of the largest and most prestigious firms from around the world including: The European Commission, NATO, BBC and financial services firms including HSBC, Lloyds/TSB, Atom Bank, RBS, Lloyds, More Than, e-sure, Travelers, Allianz, QBE and Lloyds syndicates along with many other prestigious firms including CSC, Unisys, Cisco, Microsoft, Majesco, Siemens, Deloitte, Ernst & Young, PWC, Bausch & Lomb, Linpac, Kraft, Heinz, John Lewis, Roche, Philips etc. He is also a regular lecturer at business schools across Europe.
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About Majesco

Insurance business transformation is a journey of change and revitalization, a renaissance of Insurance. Approximately 150 insurance companies worldwide in P&C, L&A and Group/ Employee Benefits are transforming their businesses with Majesco's solutions. Our market leading software and consulting services uniquely underpin the entire insurance value chain and are designed to empower insurers with the agility, innovation and speed needed to meet their transformation opportunities. Majesco's solutions include policy management, new business / underwriting, rating, billing, claims management, distribution management, BI/ analytics, predictive modeling, digital platform with mobile and portal, testing services, cloud services, bureau and content services, transformation services, consulting services and more.

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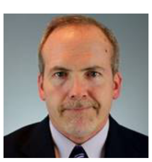

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