Non-life insurers are being left behind by the rapid changes in customer expectations. How can digital innovation help them to engage more closely with customers and what untapped commercial opportunities would this open up?

Insurance 2020: The digital prize – Taking customer connection to a new level

www.pwc.com/insurance

Insurance 2020: Future of insurance

The digital prize – Taking customer connection to a new level is the latest viewpoint in PwC's Insurance 2020, which explores the megatrends that are reshaping the competitive environment for insurers and the markets in which they operate.[1]

Our clients are using Insurance 2020 to help them judge the implications of these trends for their particular organisations and determine the strategies needed to respond. The central message from Insurance 2020 is that whatever organisations are doing in the short-term – be this dealing with market instability or just going about day-to-day business – they need to be looking at how to keep pace with the sweeping Social, Technological, Economic, Environmental and Political developments ahead.

About our survey

9,281 consumers were surveyed in May 2014 about what kind of non-life insurance they hold, their attitudes to buying non-life insurance digitally and what, if anything, would encourage them to buy non-life insurance this way. The participants form a representative sample of ages, genders and income groups in Brazil, Canada, Central & Eastern Europe, China/Hong Kong, France, Germany, India, Mexico, Netherlands, Singapore, South Africa, Spain, Switzerland, Sweden, the UK and the US.

1 www.pwc.com/insurance/future-of-insurance and www.pwc.com/projectblue

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Introduction
Digital holds the key to customer connection

We're pleased to introduce The digital prize – Taking customer connection to a new level.[2]

71%

of consumers surveyed used some form of digital research before buying insurance (e.g. price comparison or social media)

26%

of consumers surveyed bought their policies online (e.g. web or via a mobile device)

Non-life insurers are struggling to engage with customers. Cover has become increasingly commoditised and decisions over its purchase are almost entirely driven by price as many customers fail to understand or underestimate its value. Customers have access to more information than ever before, using social media and price comparison sites to compare policies, prices and claims' experience.

At the same time, customers want insurers to offer them the simplicity and accessibility they've become accustomed to in other sectors. They want quotes and prices when they want via the platform they choose, access to help when they need it and to only interact when renewing or making a claim. They will happily change insurer on a regular basis and have little desire to forge a lasting relationship. Where customers are looking at value rather than just price, they want policies tailored to their requirements and to be only paying for what they need.

Yet, few non-life insurers are able to meet these demands. Their focus on risk, ratings and products means that their understanding of their customers lags behind the advanced techniques being developed by internet and telecommunications' businesses. Comparisons with other sectors highlight a customer experience that is undermined by limited integration between channels and the lengthy form filling needed for claims, policy adjustments and other 'moments that matter'. These shortcomings are opening the door to more customer-centric competitors, including the data-rich and tech-enabled entrants who see non-life insurance as a vulnerable sector that is ripe for targeting.

Disruptor and driver

Digital innovation has been the catalyst for this customer revolution, but it can also offer the opportunity to develop the sharper customer engagement, insight and experience needed to meet these more exacting demands. Most insurers are still primarily focused on e-commerce – doing what they do already – but, digitally. The leaders are developing deeper, more personal and longer lasting relationships by using their digital capabilities to gain an enhanced knowledge of their customers (e.g. through sensor technologies) and harnessing that information to profile customers more effectively, fine-tune underwriting and deliver customised solutions. The competitive benefits include being able to move away from simply competing on price, while more effectively controlling risks and matching the experience being offered by the entrants targeting their sector.

2 In this paper, 'customer' describes all the stakeholders non-life insurers engage with along the value chain including brokers, reinsurers and service partners, as well as policyholders.

_68%_

of consumers surveyed would be willing to download and use an app from their insurance provider

_67%_

of consumers surveyed would be willing to have a sensor attached to their car or home, if it could result in a reduction in premiums

_50%_

of consumers surveyed would be prepared to provide their insurer with additional personal and lifestyle information to enable them to seek the best deal for relevant services on their behalf

The new analytical insights can also open up fresh commercial possibilities. This doesn't just include more risk prevention and remediation, but also using the deeper knowledge of customer needs to provide a broader range of non-insurance products, services and solutions. In other sectors we're already beginning to see the advent of a third wave of digital evolution, in which companies take on the role of 'digital identity manager' to secure the best cross-sector deals for their clients. There could be valuable first mover advantages for insurers that lead the way in their sector.

As we explore in this paper, technology is going to be an important part of insurers' ability to capture and analyse new sources of customer data and develop deeper relationships. Yet, the real differentiator is how effectively this information is turned into insights and a readiness to lead the innovations in the marketplace. What this demands is as much of a cultural leap as a technological shift. This includes comfort with big data decision-making and the ability to bring innovations to market with much greater speed and flexibility than today. It also requires a greater readiness to collaborate with customers and even competitors if this is the best way to give consumers and businesses what they want.

As part of our research for this paper, we spoke to more than 9,000 consumers across 16 countries to gather customer views on the changing nature of non-life insurance.[2] The findings provide valuable insights into how digital is reshaping buying habits and how companies can capitalise on new market openings.

What emerges from this research is how strongly embedded digital already is within the market and the potential to take the engagement and commercial possibilities further:

- Around 70% of consumers used some form of digital research before buying insurance (e.g. price comparison or social media)
- Over a quarter bought their policies online (e.g. web or via a mobile device)
- Nearly 70% would be willing to download and use an app from their insurance provider
- Two-thirds would be willing to have a sensor attached to their car or home, provided the end result is a reduction in premium
- Over 50% would be prepared to provide their insurer with additional personal and lifestyle information to enable them to seek the best deal for relevant services on their behalf

I hope that you find the paper challenging and useful. If you have any queries or would like to discuss any of the issues in more detail, please speak to your usual PwC contact or one of the authors listed on page 23.

David Law
Global Leader, Insurance
PwC UK

3 A representative sample of 9,281 consumers were interviewed in the UK, the US, Canada, Mexico, Brazil, China/Hong Kong, France, India, Singapore, Spain, Sweden, South Africa, Germany, Netherlands, Central & Eastern Europe (CEE) and Switzerland.

The route to digital
Where is it all heading?

In the past, digital business meant e-commerce. But the landscape has changed; the rapid rise of social media, smart devices, big data and cloud computing has opened up new avenues of potential.

social media

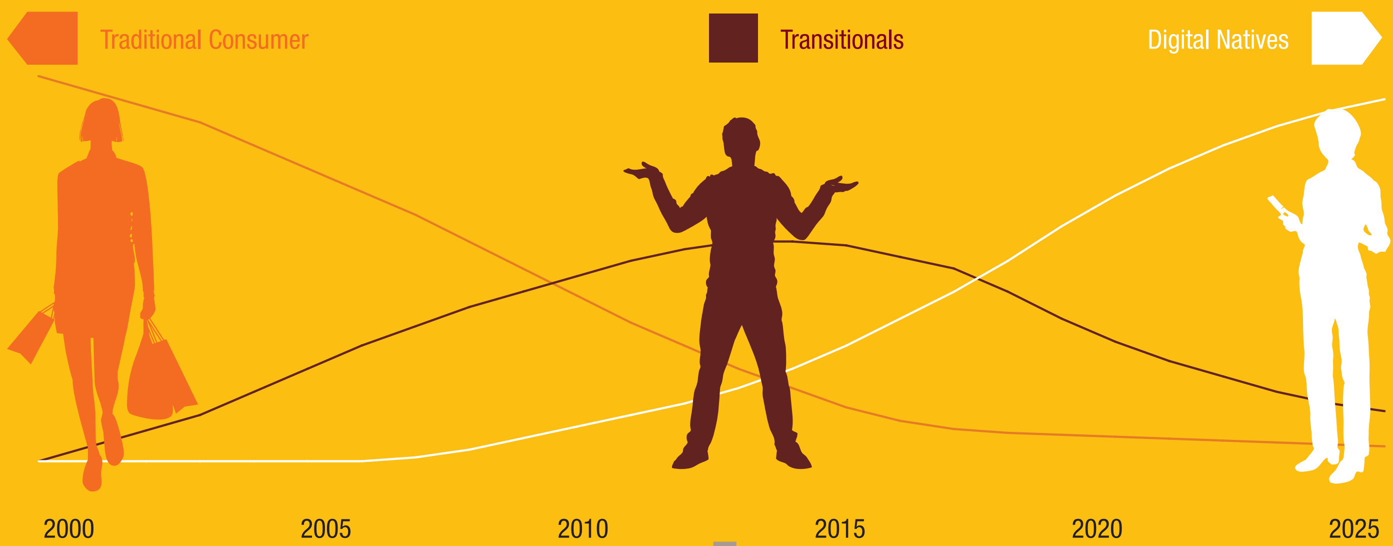
smart devices, sensor technology, wearable tech

big data and analytics

cloud computing

Customers are changing too through demographic change, increased expectations and empowerment. Technology and social media are making customers better informed, more connected and more vocal.

By 2017 a new breed of customer will dominate
– we call them Digital Natives



What does this mean for business?

As a result, businesses have changed to deal with:

- More transparency
- Reduced barriers to interacting with customers globally
- Using new business models
- Different threats and risks to privacy and security
- An economy based on outcomes, not products and services
- The rise of the trust economy

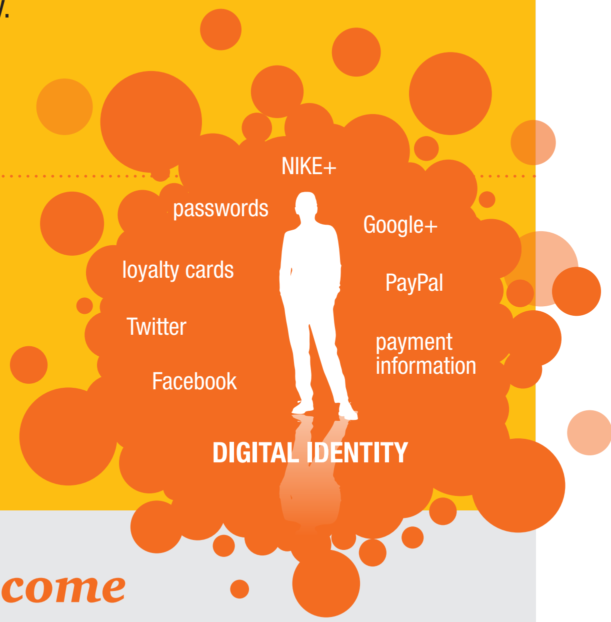
Adding value through digital

Three waves of change are taking place:

1 Businesses have the right mix of digital channels to improve customers’ e-commerce experience and successfully integrate their physical and digital operations.

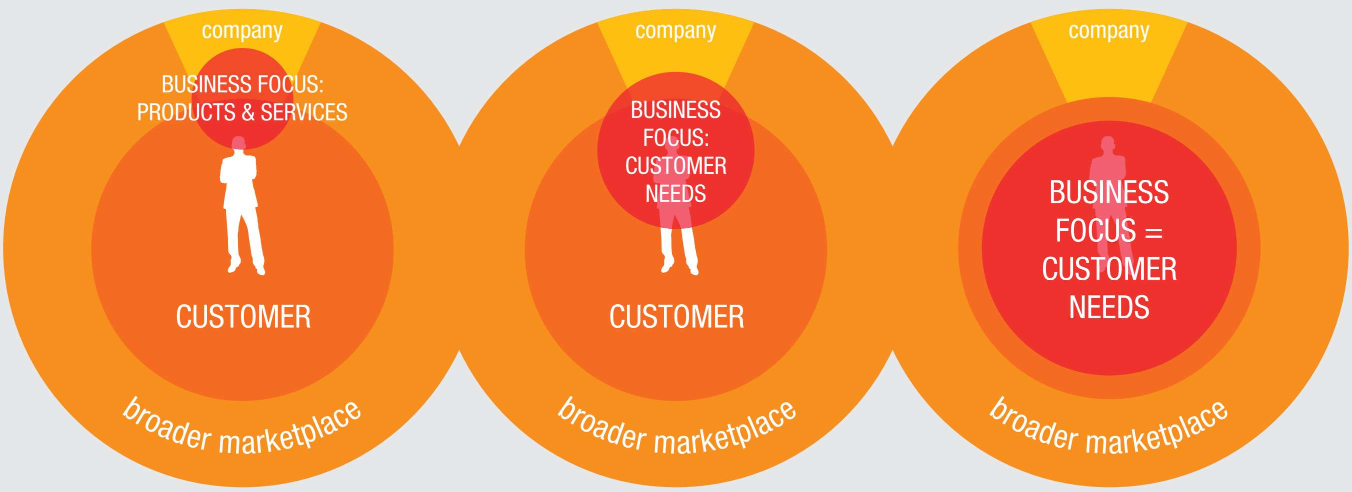
2 Businesses exploit information gained from how customers want to use their products and services to develop new propositions that help customers improve their lifestyle and increase their loyalty.

3 Customers’ digital identity will become complex. The more they interact with business’s products and services, the more insights they will gain about themselves. That then offers an opportunity for a ‘digital identity manager’ to work on their behalf to get the best deals.



…which means businesses need to become more customer-centric

Digital is a catalyst and accelerator of ‘total-customer centricity’:



1 Product-centric

Companies focus purely on their products/services…

2 Customer-centric

Focus on the benefits of their products/services and improve user journeys…

3 Total customer-centric

Focus on customer outcomes and needs to tailor their products/services to meet them. This will invoke a merging of industry boundaries.

1

Adding value through digital

Far from just being another channel, the impact of digital is transforming what customers expect, creating fresh opportunities to get closer to the customer and moving non-life insurance from a price to a value consideration. Indeed, rather than a digital strategy, the key objective for insurers should be developing a business strategy for the digital age.

The impact of digital is transforming all forms of commerce. Customers are coming to expect the ease, intuition and anytime/anywhere interaction of digital retail. In the age of the customer, consumers have the power to dictate how and when they want to do business with an organisation and compare prices and offerings at the touch of a screen. Customers also want to communicate their views via social media and see their opinions taken into account.

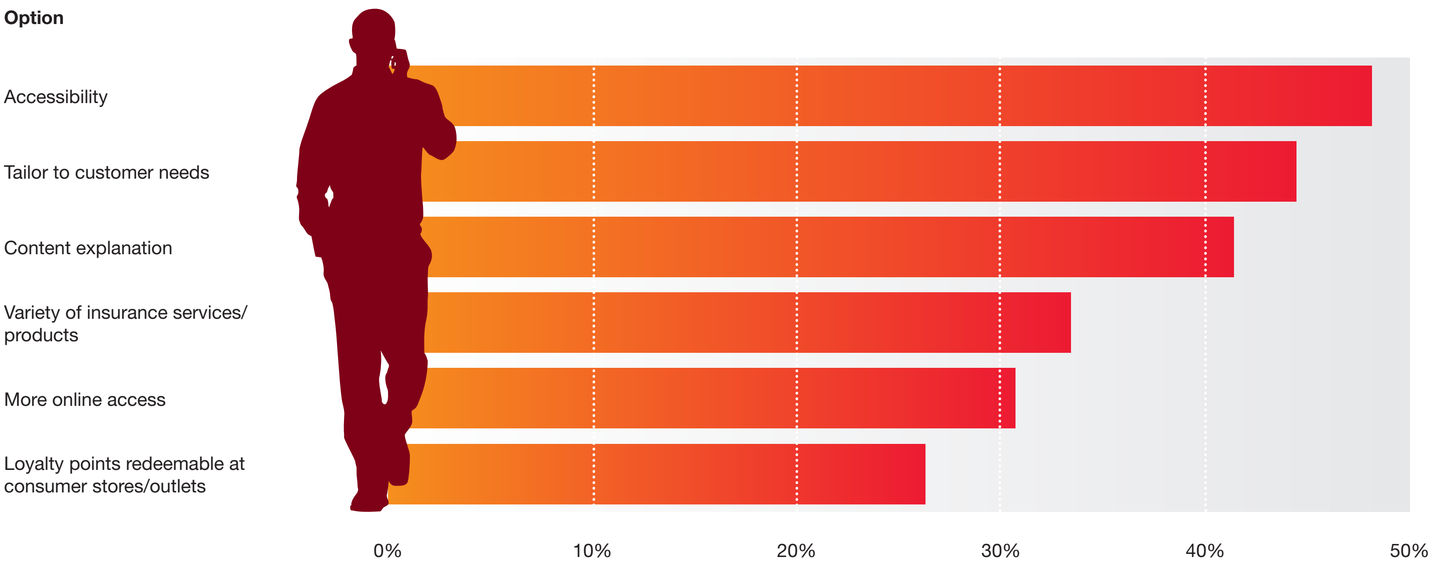
Further pressure is coming from social media and internet comparison, which are greatly expanding customers' ability to discover and compare products and services – they will quickly switch if they see they can get something better for less.

The impact can already be seen in the UK, where comparison sites have driven down margins and taken control of the customer relationship. Having initially focused on motor, the tentacles of the price comparison websites are now reaching into home, travel and business cover. Our research found that over 90% of UK respondents had used price comparison websites to research options and quotes for their non-life insurance. Over 80% had used social media as part of their research. The influence can be seen in the fact that the UK is the most price-sensitive market in our survey – 73% respondents say price is the most important factor when considering non-life insurance products, compared to just 38% in Canada.

All these opportunities for product discovery and comparison mean that people are increasingly information rich but time-poor as they're bombarded by ever more data and offers. Therefore, more effort and ingenuity are needed to grasp their attention, make sure products and services stand out and ensure that gaining access to them is quick and easy. Crucially, customers are demanding a personalised service, tailored to their specific set of circumstances and their own personal wishes, and they demand this from all of their consumer purchases including insurance. As Figure 1 highlights, greater accessibility and tailoring to customer needs are seen by participants in our survey as the most important ways to improve their customer experience.

Figure 1 Improving the customer experience

What would help your insurer improve customers' experiences



Source: 9,281 consumers interviewed as part of PwC's digital insurance survey, 2014

For non-life insurers, the immediate challenge is how to keep pace with expectations that are largely being set outside their sector, while also competing to attract and retain customers and drive value across the product portfolio and over the lifetime of the customer. Yet what insurers know about their customers is still very much geared to an individual product view of risk, understanding the individual risk rather than the customer and their needs. The more developed profiling techniques being used by many of the new entrants into the sector are enabling them to more closely tailor interactions, products and services to a customer's exacting needs and deliver a bigger share of wallet.

The challenge posed by ambitious new entrants and joint ventures is exemplified by the newly formed partnership between Ping An, a leading Chinese insurer, Tencent, the country's biggest social media network and a leading e-commerce platform. The joint venture is targeting the younger generation. It has immediate access to millions of young people, taking advantage of their partners' customer data and strong brand image within this segment.

Eventually, new entrants may begin to reach further into the insurance value chain by taking on client services, such as overseeing claims' management, in much the same way as brokers do today.

Informed and empowered

The digital revolution has been one of the main catalysts for customers' ever more exacting expectations. As such, these developments could also provide non-life insurers with the foundations for a more nimble, informed and competitive customer-centric model. In a complicated value chain in which traditional brokers have been joined by a new breed of affiliates and price comparison websites, digital insights and capabilities could also enable insurers to gain a single view of their customers and their experience.

What we mean by digital

Digital is the term we use to describe the ground-breaking array of 'SMAC' (Social, Mobile, Analytics, Cloud) developments in customer expectation, behaviour and interaction, which are rapidly reshaping the rules of business:

Social – customers are increasingly using social media to find out about insurance products and how others rate the services. Social media also provides a very public medium to vent any dissatisfaction. Therefore, while social media is an increasingly valuable source of insight into customer sentiment and sales leads, it's also important to be aware of what is being said about the company and intervene when required.

Mobile and sensors – more and more customers want to be able to buy insurance and manage claims through their mobile or tablet. Through a 'policy in your pocket', customers can have all their relevant information to hand, as well as an instant way of connecting with insurers in their hour of need, such as putting in a claim after an accident. Mobiles and sensors also offer insurers a regular source of information into how customers go about their daily lives, which would enable insurers to price risk more effectively.

Analytics – using the wealth of data created through social, mobile and sensor channels offers huge opportunities including sharper customer profiling and pricing of risk. As a result, insurers can tailor and personalise products and pricing to particular customer needs and circumstances. They can also provide pay as you go and other new market offerings.

Cloud – cloud computing frees insurers from the constraints of on-premise IT and allows them to move to a more flexible technology platform. Cloud enables insurers to innovate and try out new services and solutions for customers with much shorter lead times, which are essential when competing in a digital world. It also offers a highly effective way to bring together sensor and mobile technology, providing customers with access on the go.

50%

of policies in the UK were bought online

We see the development of customer strategies for the digital age as progressing in three waves.

Wave one:
Shaping a new customer experience

Leaders in the market have been investing in the digital channel to enable customers to receive quotes and buy online. More than a quarter of the participants in our global survey bought their policies on their PC, laptop, smartphone or tablet. Countries differ, however. Half of participants in the UK transacted online, compared to less than 10% in Canada, for example. Figure 2 sets out what attracted consumers to buy online. Notable results within particular countries include the more than 80% of Indian consumers who cited 24-hour availability and over 80% of their counterparts in Singapore who cited ease of access.

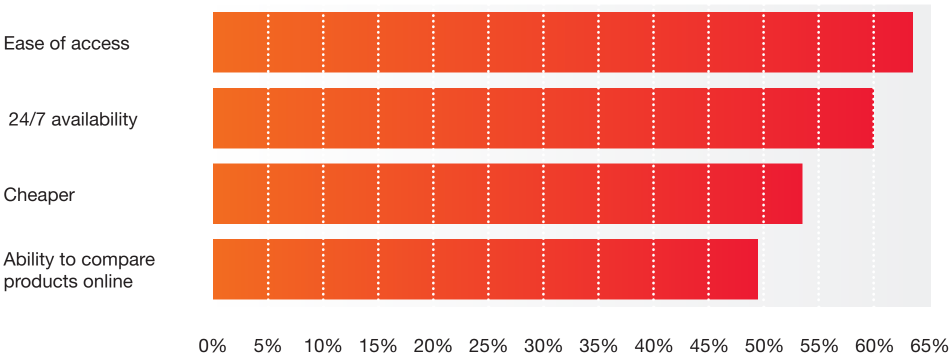
As Figure 3 highlights, digital is the preferred means of interaction across a range of key transactions.

When asked what type of cover they manage online, car insurance was by some way the most popular (38%).

When asked how they would prefer to transact with their insurer across the life cycle, a third of the consumers would be willing to renew their policy, 36% make a policy amendment, 27% make a claim notification, and 28% track claims online. Around a quarter would also like to use email to notify and follow up claims.

Once the relationship is established, digital can help to enhance the experience in ways that customers will value and want to stick with. We're already seeing apps that let policyholders send through photographs to their insurer of the damage to their car resulting from an accident for example. In this way, a customer can begin the process of claiming there and then. The

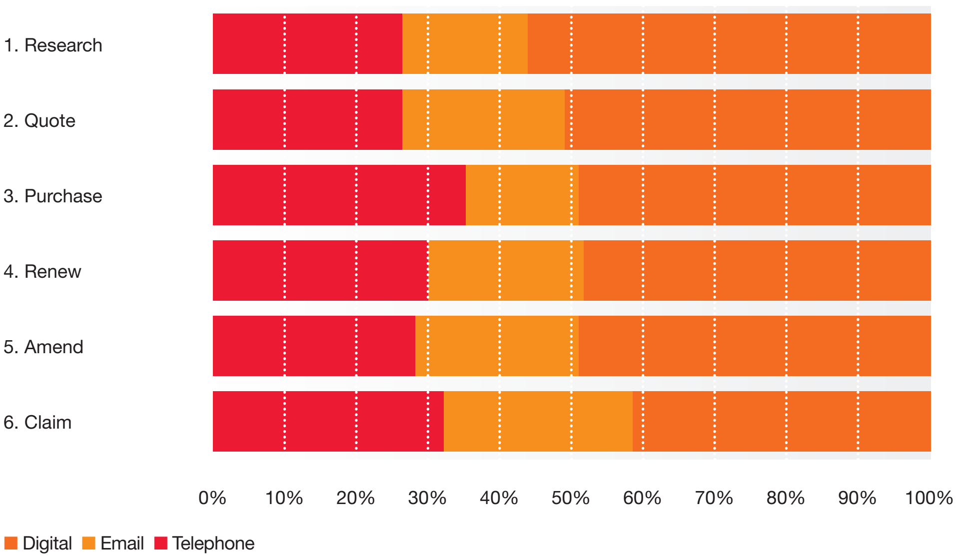
Figure 2 Why we bought online



Source: Consumers who bought insurance online as part of PwC's digital insurance survey, 2014

Figure 3 Preferred form of engagement

Which channel would you prefer to communicate or interact with your insurer?



Source: 9,281 consumers interviewed as part of PwC's digital insurance survey, 2014

36%

of consumers surveyed felt that they would need telephone support at hand if they were to purchase online.

insurer can also use technology such as GPS tracking to arrange tow-away and deliver a replacement vehicle.

Consumer reaction to the adoption of apps is generally positive. Our research showed that nearly 70% of participants would be willing to download and use an app from their insurance provider. But again, this varies considerably between countries. UK consumers are the most reluctant, with only 35% saying they would be willing, compared to over 90% in Mexico.

This more frequent interaction with consumers can hep to foster a deeper level of engagement between customer and insurer. The experience could be further enhanced through customised rewards such as cashback for people who fit certain safety devices in their cars, homes or businesses. Some insurers are taking this model further by seeking to develop closer ties with manufacturers. Insurance is provided at the point of sale. Buyers who opt for additional safety features such as self-parking benefit from lower premiums.

In other sectors, we're seeing a proliferation of everyday devices that are continually connected to the internet – the so-called Internet of Things (IoT). Devices like streetlights, kettles, watches and even bicycles can be connected and controlled via Wifi, Bluetooth and 3G/4G connections, providing the user with greater control and access in both the home and the workplace. As customers become more accustomed to these developments, connected devices in the home and car are likely to be become more common. This will allow customers a greater level of interaction with, and control over, their insurance policy, and perhaps more crucially, their premiums. Two-thirds of participants in our survey would be willing to have a sensor attached to either their home or car if it resulted in lower premiums, with 32% saying they would be happy to have both. Consumers in South Africa were most willing (83%). Consumers in the Netherlands were the least, though even here, nearly 50% would still be prepared to have a sensor fitted. Willingness among people of different ages also varies. People aged 25–34 are the most willing (76%), while people aged over 50 are the least willing (57%) to have either or both sensors.

Although the move to digital is well-established, there is still a strong need to interact with an individual. When asked what would encourage them to purchase online, access to telephone support (35%) and online advice from a professional advisor (30%) were important. Webchat, co-browsing and video chat provide ways to enhance the digital experience and be there to help the customer in their hour of need – a model would be the live advisor support available on Kindle HD devices through 'Amazon Mayday'.

Wave two:
New and enhanced products

Digital is doing more than just changing the customer experience. As a non-physical product, insurers have the ability to change the product and service itself.

Where digital profiling and interaction can create real value is in enabling customers to understand how much risk they're exposed to and how much of this they want to be protected or insured against. The results are more carefully targeted and tailored policies capable of responding to each customer's particular risk profile, risk appetite and financial budget. Examples include offering insurance for single journeys or lower premiums for people in higher or better protected homes in otherwise high-risk flood plains.

Tracking sensors have already paved the way for the development of 'pay as you go' motor cover, which matches the premium to how much the car is used. This is now giving way to a more risk-sensitive 'pay how you drive' model, which allows insurers to judge how well the policyholder drives and reflect this in their pricing. Examples include Discovery Insure in South Africa. Drivers rated as good or excellent by the company's Vitalitydrive programme can receive monthly cash rewards of up to 50% of their fuel expenditure. The benefits for Discovery include higher

76%

of 25–34-year olds would be willing to have a sensor fitted to their car or home if it could lower their premiums.

In a price-sensitive market, this use of sensors is giving forward-thinking insurers a real edge.

retention and lower claims costs. Even more important for the company are the benefits for society. The service is encouraging safer driving and reducing the incidence of serious accidents among policyholders in a country with one of the highest motor vehicle fatality rates in the world (33 per 100,000 inhabitants per year, more than twice the rate in China and the US).[4]

The next level of 'information advantage' is going to come from extracting risk and customer profiling data from the purchasing, GPS, social media and other digital trails people leave. A lot of this information is unstructured and new analytical techniques are emerging to get the insights from it.

In the property market, we're seeing how companies are overlaying unstructured and sensor data on top of basic location information. If we take flood risk as an example, this additional data might include investment in flood resistance measures, such as airbrick covers and raised thresholds. The unstructured element would include looking at social media to find out about expensive equipment in the basement, homes regularly unoccupied and other factors that could increase the level of flood loss. As a result, insurers can not only price-risk more precisely, but also offer more informed advice on how it can be reduced and mitigated.

Through better advice on loss prevention and only paying for the risks they're actually exposed to, customers cut their premiums. The insurer benefits from a better understanding of the risks, allowing it to offer competitive rates, while sustaining margins and lowering its combined ratio. In a price-sensitive market, this use of sensors is giving forward-thinking insurers a real edge.

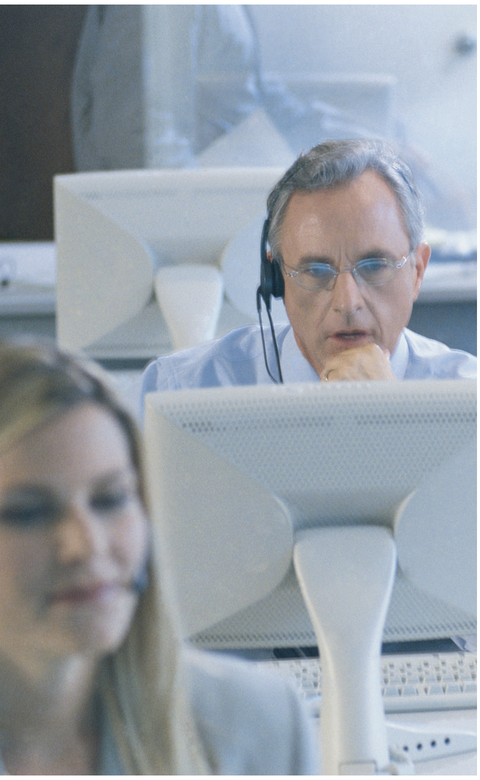
Insurers could take this further by following the models developed by supermarkets and other retailers. This includes using insights into their customers' lifestyle and daily routines to offer loyalty points in coffee shops along a regular route or money-off products they like.[5] Customers feel more valued. The key other advantage of this approach is in creating more opportunities for interaction and engagement than the largely price-driven annual renewal. Chances of customer retention would improve as a result. Our survey suggests that over half of global participants would be prepared to provide their insurer with additional personal and lifestyle information to enable them to seek the best deal for relevant services on the customers' behalf.

What underlies these developments is an important shift from the insurer being a reactive claims' payer to a proactive risk manager. By helping customers to understand and mitigate their risks more effectively, the true value and differential of insurers' risk management expertise would become more tangible and they would be in a better position to increase their prices and returns.

One of the keys to developing genuinely customer-centric solutions will be readiness to offer products and services from outside the company, if this is what best suits the customer's needs and preferences. Many insurers may balk at the idea. But this is essentially what supermarkets do and both their own brand and overall sales are boosted by the choice.

4 Presentation by Anton Ossip, CEO, Discovery, to the UBS Conference, April 2013.

5 A key catalyst for this is the increase in driving sensor apps on smart phones, which are eventually likely to replace the first-generation 'black box' devices. These apps would enable insurers to track all of their customers' movements beyond just their car journeys.



Wave three:
Managing the digital identity

The shift to managing and mitigating risk could also open up new commercial possibilities. Our survey reveals widespread readiness to provide a broader range of behavioural data to their insurer in return for the potential value – and cost-saving – that sensor and data can provide. Nearly 50% of participants say they would be prepared to provide their insurer with this type of data in order to benefit their lifestyle. An example of how this might work in practice is domestic boiler data. If a sensor in the home shows a fault with a boiler while the home is empty, the insurer could arrange to have it repaired before the policyholder returns home. This 'home intelligence' could pave the way for a broader range of concierge services built around a combination of customer knowledge and sensor technology.

Some customers might go further by giving the insurer – or information company, which might be a better description for this evolving business model – access to all their personal data. The company would use the information to tender for a range of personalised services on the customer's behalf. This would of course demand a high level of trust in the insurer, which can only be achieved if the customer believes that the company is willing to put the customer's interests before their own. Indeed, our research found that nearly 40% of UK participants, nearly 50% of those in the US and nearly 80% of Indian consumers would be willing to provide their insurer with additional personal and lifestyle data to enhance their service offering on their behalf. In the Netherlands, only 30% of participants would be prepared to do so.

Marking out the winners

So which non-life insurers are likely to emerge strongest? While the technologies and customer expectations will continue to evolve, we believe there are ten fundamental attributes that will mark out the companies best able to take advantage of the digital potential:

49%

of US consumers would be prepared to provide their insurer with additional personal and lifestyle information to enable them to seek the best deal for relevant services on the their behalf

1. Contextualised Matching the experience with customer preferences	Digital interaction and insight enable the insurer to know all about each customer's lifestyle and buying preferences before they engage with the business. The company can then match the buying experience to the profile of the customer.
2. Optimised Continually testing and enhancing interaction	The latest digital evaluation techniques allow customer interactions to be individually tested for suitability and satisfaction. Each element of the interaction can then be instantly reconfigured to increase the effectiveness of capturing leads, closing sales and managing contacts.
3. Engaged Creating a compelling reason to buy	Digital offers opportunities to strengthen customer understanding and engagement, enhancing loyalty and creating new opportunities for cross-selling. The competitive benchmarks should be internet and technology companies that are seeking to move into the sector, rather than just traditional peers.
4. Targeted Turning new sources of insight into customised solutions	Ability to use existing and new unstructured data to create customised risk solutions and provide a platform for extending services into new areas. Expertise in predicting customer behaviour is critical. Key differentiators will be the ability to recognise what features customers value and are willing to pay for and dynamically pricing according to demand.
5. Guided Helping customers to decide what's right for them	Digital can not only be used to help inform customer decisions, it can also help to guide them through a structured decision-making process. Models for this type of personalised online guidance already exist with tax and money management.
6. Synchronised Creating a seamless multichannel experience	Digital is not a channel in itself, but a sharper way of communicating, interacting and responding internally and externally. Key capabilities include the ability to bring together online and social media dialogue with face-to-face interactions with sales teams to create synchronised multichannel engagement. Being able to encourage people to move from online and 'live chats' across to your telephone and agency channels could be especially important in bringing the sale to a close, and generating leads for cross-selling.
7. All-embracing Reshaping the mindset and operations of the business	Digital influences every aspect of the commercial operation, from product design to marketing and sales, through to the servicing of the policy and claims. People at all levels of the organisation need to be comfortable with big data decision-making as part of a business strategy for a digital world rather than just a digital strategy.
8. Nimble Leading rather than following	Rather than waiting for perfection at launch, it's better to get innovations into the market, monitor feedback, adapt and refine – the best place to test an idea is when it's in the marketplace. This requires something of a cultural shift, which accepts that the business may not get everything right and the important thing is to learn and rapidly move on – it's better to fail quickly and cheaply before finding the right answer. Rather than the quality of initial design, the ability to interpret and respond to customer feedback becomes the core differentiating capability of a digital insurer.
9. Efficient Delivering more for less	Digital will put pressure on prices by making products easier to compare and opening up existing businesses to increased competition. But it also offers opportunities to price more keenly by controlling risks more effectively and delivering products and services more efficiently.
10. Sensitive Clear about what you're doing with data and why	Sensitivity over privacy is crucial. Policyholders are generally willing to share data as long as they see a clear benefit in doing so – the sensors used to monitor driving safety are a case in point. Transparency over how the information is gathered, used and protected is critical.

2

What's holding businesses back?

As digital developments foster shorter innovation lifecycles through the ability to try and test new ideas and discard the ones that don't work, the traditional approaches to business development, change management and process upgrades within the non-life insurance sector are increasingly out of step. This is opening the door to faster moving competitors.

What customers see as commonplace as opposed to differentiated is constantly changing. Businesses with digital at their heart are quick to respond and adapt, but few insurers are up to speed and many face the risk of being marginalised.

So what is holding non-life insurers back? The first issue is the readiness to embrace change. There is a general preference for incremental over radical innovation. Product development cycles and the decision-making and approval that underpin them can also often be quite prolonged. Indeed, such is the time and investment needed to bring innovations to market that there is a very low threshold for design and implementation risk. In faster moving sectors, it's possible to test the waters, learn and adjust with greater freedom and at relatively low cost.

The pace of change is being held back still further by slow and unwieldy legacy systems. Many non-life insurers have instituted significant systems' investment to bring their capabilities up to speed. But over-long and over-engineered planning, design and build phases mean that by the time systems are up and running, the market has moved on. Indeed, where the traditional mantra for IT upgrades has been 'the better the planning the better the execution', this is no longer relevant in today's fast-moving marketplace.

Just keeping heads above water

One of the key problems is that the change programmes are aimed at a fixed target, such as speeding up claims response or reducing administration costs. But in today's market, the targets are constantly moving and the time to respond is very limited. Moreover, so much of the investment is directed at upgrading existing systems, processes and products that there is generally insufficient left to equip the business with the insights, flexibility and other key capabilities it needs to meet changing customer expectations.

Further problems centre on how the information being generated by the new analytical systems is used. Insurers are comfortable with using complex data in their actuarial and underwriting evaluations. But they're less equipped to use big data to drive decision-making across the organisation in areas ranging from product design and marketing to new business development. Non-life insurers also still tend to gauge success in terms of product development and sales, rather than the smart solutions and enduring engagement that would define a genuinely customer-centric organisation.

Our global survey suggests that many consumers would be willing to share data as long as they trust the company to use it responsibly.

Lowering barriers to entry

This slow response is opening the door to faster moving peers and, increasingly, new entrants – 50% of insurance CEOs taking part in our latest global CEO survey see new market entrants as a threat to growth, far more than any other financial services sector.[6]

In the past, established insurers have been protected by the high costs of developing systems and putting the distribution capabilities in place. In the digital age these high fixed costs are considerably reduced. A combination of cloud computing and a new generation of packaged application software mean that new entrants can get the critical systems' infrastructure in place quickly and cheaply.

Privacy

Data confidentiality is a further challenge. This goes beyond legal requirements as legislation may fail to keep pace with the rapid developments we're seeing in the marketplace. Moreover, the ground rules are still developing and are being influenced by the different perspectives of particular generations and cultures. What is clear is that transparency over how the information is gathered, used and protected is absolutely critical. Our global survey suggests that many consumers would be willing to share data as long as they trust the company to use it responsibly.

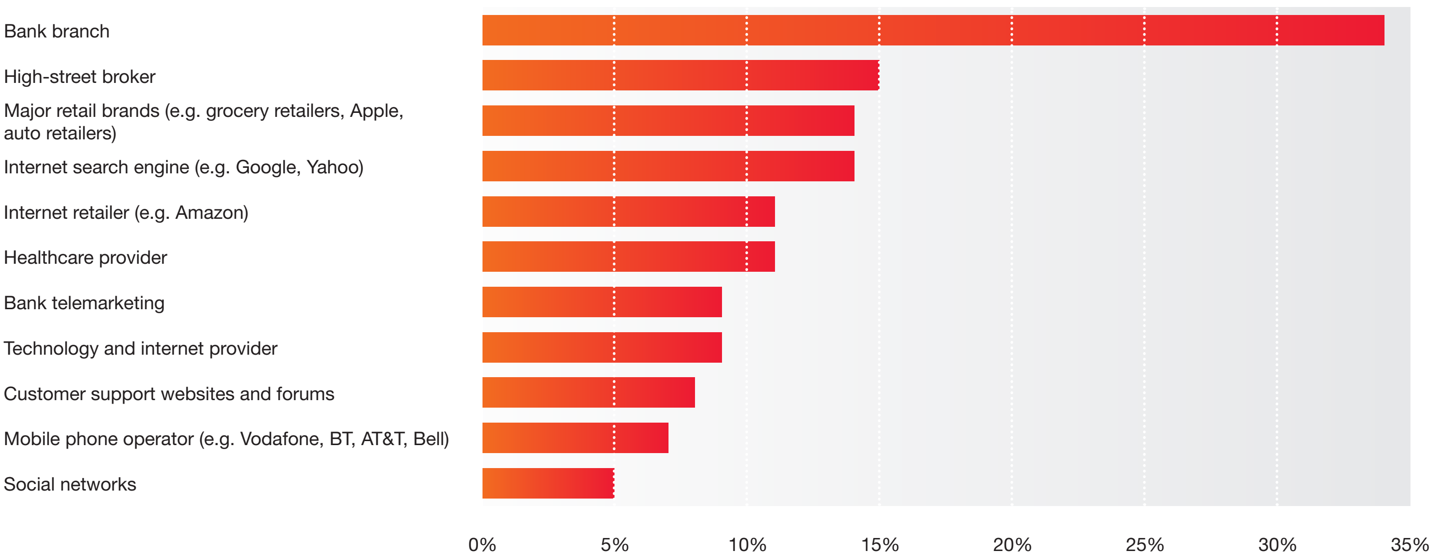
Your fiercest competitor

As customer expectations change and the barriers to entry are reduced, the organisation's 'fiercest competitors' are no longer just their traditional rivals – in fact they may be incomers from other sectors. What happened to the music and publishing industry in the face of the onslaught of digital distribution shows how quickly established distribution models can be swept aside.

Our survey indicates that there is significant disruption already – Figure 4 shows the proportion of participants who would be willing to purchase insurance products from companies outside the industry.

Figure 4 Buying cover from non-insurance companies

Which of the following companies would you be willing to buy an insurance policy from?



Source: 9,281 consumers interviewed as part of PwC's digital insurance survey, 2014

6 74 insurance CEOs polled as part of 17th Annual Global CEO Survey Fit for the future: Capitalising on global trends, PwC, 2014 (www.pwc.com/ceosurvey).

The box below matches some of the key competitive attributes of a competitive insurer with the characteristics of some potential new entrants.

	Competitive differentiators	*Potential new entrant*
1	**Brands that customers trust and might pay a premium for**	• Post office • High-street retailer
2	**Proven retail digital distribution footprint**	• Internet retailer • Major bank
3	**Greater expertise in understanding and acting upon customer needs and values**	• Mobile phone operator • Internet search engine
4	**Understanding of how to better price customer segments**	• Technology and internet company
5	**Trusted source of guidance for customers making decisions**	• Customer advocacy website • Internet search engine • Social networks
6	**Ability to rapidly price risk and provide capital**	• Reinsurer • Investment bank
7	**Ability to deliver change quickly**	• Technology and internet company
8	**Insights into changing risk demands**	• Broker • Reinsurer • Price comparison websites

A lot of companies have put digital innovation at the forefront of this strategic shift. But it is the customer that should be the centrepiece of this rethink, with digital developments being the means to the end rather than an end in themselves.

3

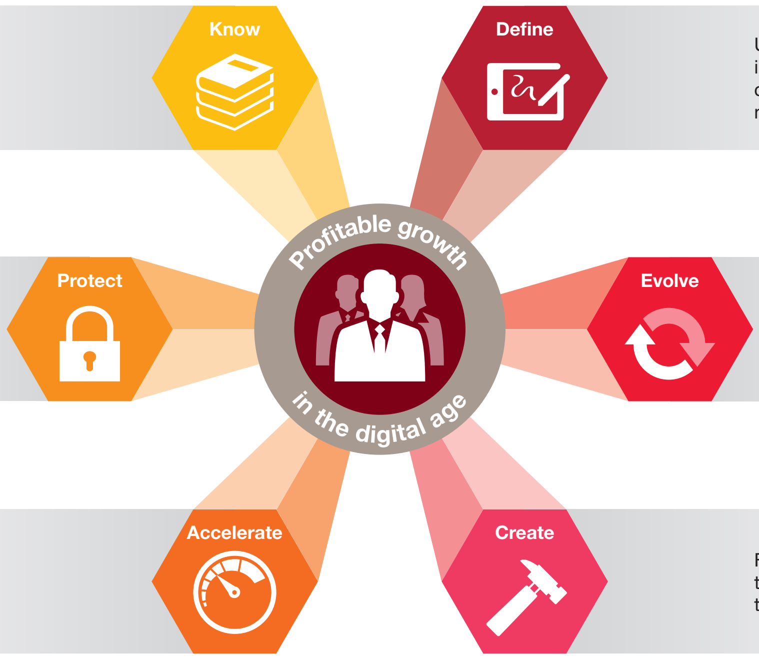
Getting up to speed

As data insights emerge as the key differentiator, how effectively non-life insurers are able to use the information is going to be critical.

The competitive threat posed by the technology, mobile and internet giants is their ability to reach customers across the market, and then use this to capture, process and interpret data on a vast scale and at huge speed. It is this combination of scale, access to data and high-speed precision analytics that non-life businesses will need to match.

Figure 5 outlines the six key considerations for bringing businesses into line with the digital age and fostering customer-centricity and profitable growth. What this comes down to is a clear sense of how customer behaviour and desired outcomes are changing, where and how the business can best compete in this new marketplace and what capabilities it needs to achieve this. A lot of companies have put digital innovation at the forefront of this strategic shift. But it is the customer that should be the centrepiece of this rethink, with digital developments being the means to the end rather than an end in themselves.

Figure 5 Prerequisites for success in the digital age



Know: Understand the rapidly evolving digital customers' behaviours, needs and desired outcomes and the impact on profitability and growth.

Define: Understand how value is created in the digital economy in your value chain and ecosystem. Define your new business model.

Protect: Be equipped to protect your assets, data and reputation against the threats of the digital world.

Evolve: Design your required proposition and optimal operating model and a clear route to achieving it.

Accelerate: Adopt agile approaches to design, build and integrate enterprise-wide social, mobile and web solutions.

Create: Fostering of new business ideas, their incubation and development to scale.

Source: PwC

A key challenge is how to deal with such a proliferation of data, the bulk of which is irrelevant 'noise'. Most organisations are looking at how to increase their capacity to mine and analyse, but this can leave them drowning in data and make it difficult to extract genuine insights.

Digital at the core

So what shift in culture, systems and organisational capabilities are needed to put non-life insurers out in front? If we look at how digital leaders in other sectors operate, they have embedded digital throughout the organisation, rather than just customer acquisition channels. Marketing people are comfortable with big data decision-making, understanding the complex decision-making journey customer's go through across social media, online and affiliates. Contact centre support staff understand how customers want to interact and are there, ready, whatever channel they need assistance on. Brokers and intermediaries would have access to all the information and tools they require in a way that enhances and supports the customer journey.

Employees within this digital organisation are sufficiently connected to not only solve customer issues, but also get products and services to market quicker. Actuaries and analysts would need good access to new sources of data and greater marketing and product know-how as they look at how to turn the surge of digital information into commercial insights. The key differentiator is how quickly and effectively all this analysis can be put to profitable use. Examples of this feedback loop would be a competitive price for covering a single car journey or advice on how to sustain production when vital supplies are at risk of being interrupted. Analytics and reporting functions need to have access to not just historical data, but also predictive modelling capabilities that support management decision-making.

Organisationally, there would be a shift away from developing and selling products through the separate siloes of design, marketing and distribution (looking inside-out) to discerning the needs and expectations of customers and working back to create the right solutions (looking outside-in). Decisions over what is right for the customers should include a 'fairness' lens that gauges whether they understand the product, they can afford it and is it likely to deliver value for money.

Making this work requires the right people. It also requires the right information in a sector that is behind the curve in understanding what customers think and want. Customer journeys would be mapped and analysed across channels to identify opportunities to improve the customer experience. Some companies are going further by moving to a co-creation model, in which products and services are developed, tested and adapted in partnership with customers and social media communities. In other sectors including banking, we're also seeing the development of social media command centres, which allow companies to track customer ideas and attitudes in real time.

Successful companies will also be marked out by the development of effective indicators to measure whether they're meeting customer needs. Measuring satisfaction through metrics such as net promoter scores (How likely is a customer to recommend the company?) can be helpful, but it doesn't gauge whether the customer actually understands the product or whether it's right for them. It will therefore be important to use the latest analytics to gauge understanding (Have they bought this kind of product before?, for example) and measure applicability against the customer profile. Similarly, rather than just measuring complaints, rating staff motivation and behaviour can provide a proactive early indicator of eventual customer outcomes.

In turn, customer effort scores (the work the customer has to do to get what they want or have their problem solved) would measure whether the insurer is able to match the ease, speed and intuition customers have come to expect from interactions in other areas of commerce. For example, if a call centre knows what the customer is enquiring about because they had earlier looked at products or put in a query online, this would score highly. Having to start again for each channel would not.

SMART analysis

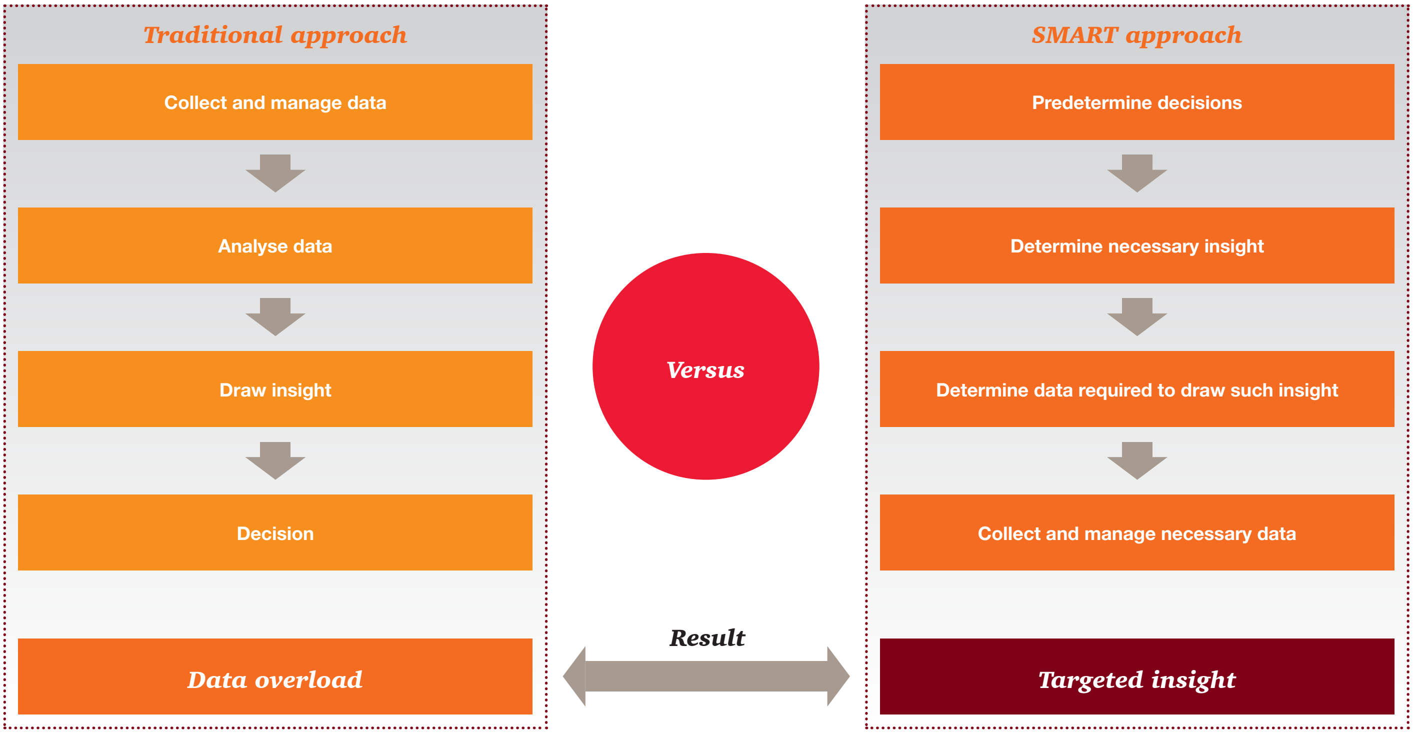
A key challenge is how to deal with such a proliferation of data, the bulk of which is irrelevant 'noise'. Most organisations are looking at how to increase their capacity to mine and analyse, but this can leave them drowning in data and make it difficult to extract genuine insights.

As Figure 6 outlines, a more effective approach would filter the data gathering and analysis into what is specific, measurable, actionable, realistic and timely (SMART). This would seek to identify the key questions that should be addressed to support particular decisions: 'Do our product designs reflect evolving needs?', 'What is the growth opportunity of our products and services?' and 'How does this change under different bundling and pricing scenarios?', for example.

Quicker to market

The need to bring innovations to market quicker would demand a move away from lengthy and bureaucratic business planning to a faster and more flexible, data-led iterative approach to business decision-making. Organisations would monitor digital signals, test, take on feedback and respond in a model similar to that used by many of today's telecoms' and technology companies.

Figure 6 Targeted insights



Source: PwC

The initial application of sensor tracking in non-life insurance highlights the value of getting into the market quickly and developing from there. In particular, the initial tests revealed the close link between hazardous driving and low credit scores, something that hadn't been identified in the planning and design phase. This paved the way for a more proactive approach to screening, underwriting and customer targeting that doesn't rely on a driving record once the cover is already in place.

Less design, more adaptability

The logic of cutting down on the plan and design phase and getting to market as quickly as possible would also apply to systems development. One option would be to develop start-ups that run alongside existing capabilities. These 'greenfield' operations could be up and running quickly and then tested, adapted and expanded to meet rapidly evolving demands. Other possibilities include acquiring or partnering with companies that already have the necessary capabilities, such as technology companies or new entrants.[7]

These approaches could allow much greater flexibility and room for innovation on the one side, while reducing costs, design and execution risks on the other. The main determinant of successful change is no longer planning and design, but how to interpret changing expectations, move quickly to market, gain feedback and quickly adapt.

7 'Insurance 2020: A Quiet Revolution – The Future of Global Insurance M&A', PwC, September 2013, looks in more detail at the role of acquisition in enhancing competitive capabilities (www.pwc.com/insurance/quiet-revolution).

Conclusion
Claiming the future

As customers become more informed, demanding and prepared to switch, the importance of a being able to deliver what they genuinely value rather than more of the same is going to greatly increase.

Digital is shaping customers' ever more exacting expectations on the one side and enabling non-life insurers to engage more closely and develop smarter solutions on the other. It would enable insurers to move from commoditised competition based on price to differentiation through customer relationships and the ability to deliver what they value.

The front-runners are already developing the focused analysis and organisational collaboration needed to turn reams of unconnected data into telling customer insights. They're looking beyond the confines of reactive insurance cover to higher margin proactive risk advice and prevention. They're also looking beyond sensors and big data analysis as simply pricing tools, as they seek to develop a new generation of information-based services. And so they can sustain their lead, they're able to get to market quickly, take on feedback and adapt as demands evolve and new insights come to light. By the time the followers attempt to catch up, the market will already have moved on.

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