

The Digital Metamorphosis of Three Industries

A Digital Rebirth for Life Insurance, Annuities, and Pension Companies

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Digital technology is reshaping every corner of the \$5 trillion global insurance sector,⁸⁹ bringing innovation to how insurers assess risk, market and sell, and administer their products. However, the limitations of legacy

systems, complex and unwieldy operating environments, and concerns about the risks and costs of digital transformation have impeded the industry's ability to take advantage of these new and emerging capabilities.

That's not to say there haven't been some significant successes. For example, U.S. auto insurers with direct online channels to customers have steadily increased their market share since 2009, from 20% to 30% today.⁹⁰ However, some of the biggest challenges to digital transformation—and also some of the greatest opportunities—are found among life insurers, annuity, and pension providers.

⁸⁹ Market size in 2017 in US dollars in premiums, according to a 2019 McKinsey report. Accessed Aug. 21, 2019. <https://www.mckinsey.com/industries/financial-services/our-insights/2019-global-insurance-trends-and-forecasts>

⁹⁰ S&P and William Blair data, as cited by CB Insights newsletter, Aug. 5, 2019.

From our digital strategy work with dozens of major companies in this arena and helping manage the policies they administer and the technology infrastructure that supports them, we believe the sector is ripe for much greater digital transformation. These companies agree. A study that TCS conducted

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this year on digital transformation at more than 1,000 North American and European companies (including 122 insurance firms) makes that case. The insurance companies predicted the most important driver of their

growth over the next decade would be using digital technology to create greater demand—i.e., to get better at digital marketing and sales. Nearly as important is creating a strong customer experience, especially online⁹¹.

The opportunities for life insurers to use digital technology to improve engagement, increase revenues, and reduce costs are plentiful. But so is investors' pressure. Life insurers and annuities providers in mature markets (North America, the UK, Europe, and Japan) have increased revenue only an average of 1-2% annually in recent years. That's in stark contrast to the 12% to 15% growth in the developing markets of Asia and Latin America. In fact, the majority of multiline insurers and 44% of life insurers had negative economic profit between 2012 and 2016, according to a McKinsey analysis. That means earnings were less than the cost of capital.⁹²

Legacy technology is responsible for some of that. So is a lack of new customer-facing and productivity-

⁹¹ TCS 2020 CIO Study. Accessed Aug. 27, 2019. <https://sites.tcs.com/bts/tcs-cio-study/>

⁹² McKinsey insurance report 2018. Accessed Aug. 20, 2019. <https://www.mckinsey.com/~/media/mckinsey/Industries/Financial%20Services/Our%20Insights/Where%20the%20life%20insurance%20industry%20can%20go%20from%20here/Life-insurance-and-annuities-state-of-the-industry-2018>

enhancing technology investments at crucial times. The impact: Expense ratios have barely budged during a time in which investment returns have been small.

But a number of large life insurance companies have tackled the huge expense of administering policies, in

order to shift investments that will help them engage in customer journeys. They have turned their enterprises into hotbeds of digital transformation—overhauls that have reduced costs dramatically, improved the customer experience, and freed up capital to fuel product expansion and facilitate mergers and acquisitions.

The New Digital Opportunities for Life Insurers



What are these life insurers doing differently? They're rethinking how they operate. That begins with viewing their new operating model as one that must connect in a digital ecosystem with other players' crucial roles. Their rethink is also about bringing innovation to their products and how they create demand for them.

Digital transformation remains at the heart of all this. The experience of dealing with a life insurance company is a moment of truth in the customer experience. Simple changes—new addresses, new beneficiaries, to name just two—can take days. Responding to simple questions (“What will be the value of my policy in 12 months with a 3% inflation rate?”) can take longer. And so can resolving the ultimate ‘moment of truth’ in life insurance: the payout following a death claim.

Compared with the instant answers they can get from typing into a search engine, consumers would say most life insurers answer their questions at a snail's pace. But there is a good reason why those insurers are often slow: complexity. This is due

to legacy systems, legacy processes, and hard-to-understand products. Many legacy systems are 30 years or older, written in ancient programming languages such as Assembler or Cobol. They can be patched, but they can't easily be re-engineered to be a foundation of new digital services such as making changes to addresses from the Web or a mobile app. At the same time, insurers' reliance on batch processes can mean it takes days to make simple policy changes.

Despite all this, life insurers that achieve digital transformation are gaining new revenue-generating capabilities, markedly improving the customer experience, and reducing costs. They're accomplishing this through three common actions:

- **Getting their administrative IT infrastructure in order and on a digital platform.** This is crucial to reducing complexity and creating an engaging, simple customer experience. These digital platforms must enable these companies to offer

a personalized, multichannel, and near real-time customer experience. Several large insurers have also optimized the platform by shifting their back offices to third-party administrators (including TCS). By residing on the cloud, these digital platforms make it easy for other business units—and external business partners—to tap into them.

- **Mastering data management and analytics.** The digital leaders among the insurance companies we studied were far more likely to believe their analytics capabilities in leveraging customer data were ahead of competitors'. Some 63% of the digital leaders believed those capabilities were superior vs. only 28% for the digital 'followers'. The digital platform is key to optimizing data and analytics capabilities.
- **Leveraging a wider range of business partners through digital ecosystems.** It's the cloud-based digital operating model, with its standard interfaces and ways to connect business partners, that enable a life insurer to plug into a wider network of data and other business services providers.

The Payoff: Faster and More Efficient Growth

We've seen the benefits to life insurance companies that operate in those three ways to be significant.

The first benefit is a greater ability to add new product lines, especially through acquisitions. That means new revenue. Life insurers that can make and integrate acquisitions effectively have a key advantage. The best life insurance companies are three times more likely than the industry as a whole to have turned M&A into a standardized process, according to McKinsey research⁹³. We believe part of that standard process is a digital platform and cloud-based infrastructure with common ways of organizing customers, policy, and other key information. One insurance company that we know is in the process of converting 450 applications to six. It is also putting all policyholder data, which had been in 50 different databases, in one place. All this simplification will help the company efficiently administer the additional revenue from acquired or newly launched product lines. That will boost profitability, not just revenue expansion.

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Additionally, the insurer's top management has been able to shift resources and investments away from back-office duties such as institutionalizing compliance processes (including data privacy requirements relating to where customer data is housed) to initiatives that are increasing customer demand and loyalty. That leads to the second big benefit we've seen for life insurers that digitize successfully: slicker customer touch points. Money freed up from administration can be spent on a more robust, multi-channel digital customer experience. Such self-service websites

⁹³ McKinsey 2018 global study on the life insurance and annuities industries. Accessed Aug. 21, 2019. <https://www.mckinsey.com/~media/mckinsey/Industries/Financial%20Services/Our%20Insights/Where%20the%20life%20insurance%20industry%20can%20go%20from%20here/Life-insurance-and-annuities-state-of-the-industry-2018>

and mobile apps can give customers instant responses to easy-to-answer questions and quickly handle transactions that used to require an agent or customer service rep to resolve.

The third most common benefit we've seen is more predictable IT and operations spending. Digital platforms that enable insurers to participate in cross-industry digital ecosystems also provide more transparency into future IT expenses. Turning closed book administration and other operations over to third-party administrators also reduces the risk of technology and operations obsolescence, and turns a fixed capital expense into a variable cost. Partnering with an organization whose digital platform is cloud-based and built to integrate easily into the broad digital ecosystem puts insurers and pension firms ahead of the game.

Another major benefit is the ability to bundle multiple offerings and customize them to customers' specific needs. Insurers that have organized data by their customers' total relationship with them, not just by product line, are able to work with employers to more easily bundle employee benefits packages. They include health insurance, workers' compensation, group life insurance, investments, and fitness program discounts—all of which can make their offerings more attractive and relevant. For example, 85% of health insurers believe patients would give them access to their tracking devices (smartphones, fitness wristbands, etc.) if they received price breaks, advice, and other value in return⁹⁴.

⁹⁴ Research 2 Guidance study, accessed Aug. 20, 2019. <https://research2guidance.com/mhealth-app-market-2016-top-10-changes-and-reasons-to-be-optimistic-for-the-years-to-come/>

What's Required to Move Fast: Digitally Savvy Leaders

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These, and other benefits, await life insurance, pension providers, annuity, and retirement services firms that see digital transformation—and participating in digital ecosystems—as their future. From TCS' research on digital transformation, companies that have more digital experience at the top—executives who are in sync about the company's digital strategy—are faster to seize on these opportunities.

At the digitally leading insurance companies that we studied, an average 63% of their top management teams and 59% of their board members had deep digital experience. Those percentages in the digital follower insurers was much lower: 37% of their management teams and 38% of their board directors, on average, had deep digital experience⁹⁵.

What's more, the most digitally successful insurers had tighter alignment among top management on their digital direction. In these firms, more than 90% said their boards, line of business heads, and functional chiefs were in sync with the CIO on their company's digital vision, and 82% said the CEO was also on board. Among the digital followers, only 70% of CEOs, 80% of boards, 60% of line of business heads and 58% of functional heads were aligned with the CIO's digital vision.

From this year through the next decade, company leaders in this industry have consequential digital decisions to make. They have plenty of best practices to study in this and other sectors to find the right path. Those that elevate operational simplicity and customer experience, overhaul and put their administrative systems on a powerful digital platform, ramp up their customer analytics skills, and tap the wider digital ecosystem for other capabilities that they need are positioned to pull ahead of the pack over the next decade.

⁹⁵ TCS 2020 CIO Study, accessed Aug. 27, 2019. <https://sites.tcs.com/bts/tcs-cio-study/>