

HOW P&C INSURERS CAN EARN HIGH ROI ON DIGITAL INVESTMENTS

A GUIDE FOR P&C EXECUTIVES

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Property and casualty executives today are worried about online competitors and disruptors, mobile channels, redesigned customer experiences, analytics, automation – anything and everything digital. They are concerned about how digital technologies will disrupt their industry’s competitive landscape, business model, value proposition, and core operations.

However, in our conversations with many senior leaders, we are struck by the fact that they are not singularly focused on how digital investments will deliver ROI and improve their bottom lines.

Despite the industry’s focus on digital, we’ve seen digital initiatives at carriers become undisciplined and unmanageable, producing negligible or even negative financial returns, because executives have failed to impose clear targets for P&C’s primary drivers of return on investment.

Exhibit 1: P&C’s primary drivers of return on investment.



FOCUSED GROWTH

Enabling effective customer and channel engagement



EFFICIENCY

Driving down costs in core operations



UNDERWRITING RESULTS

Generating actionable insights to improve loss ratio

The three P&C industry sectors – personal lines, small and medium-sized enterprise (SME), and large corporate and specialty – each face their own challenges. Thus, we believe that high impact digital investments vary by sector; according to competitive dynamics, historical factors, and areas of greatest improvement opportunity.

P&C insurers must work to ensure that they have baseline digital enablers in place; the data, systems, and processes required for the successful implementation of digital initiatives. Consequently, P&C insurers must approach digital investments by taking into account both the dynamics at play in their industry segment and their baseline digital infrastructure and skills.

First, we'll identify the forces currently reshaping each of P&C's three sectors and show how targeted investments can produce bottom line results and high ROI.

We'll conclude with an overview of seven foundational digital enablers common across P&C insurance.

THREE P&C SECTORS, WITH DIFFERING DIGITAL IMPERATIVES

High ROI digital investments vary by line of business based on historical trends and current competitive dynamics. In personal lines, high payoff comes from laser focus on the customer journey; in SME, it's about granular risk segmentation, streamlining and modularizing; in large corporate and specialty lines, it's from realigning to meet the flow from evolving broker platforms with their increasingly specialized demands on risk capacity and talent. Each sector is discussed in detail in the following sections.

PERSONAL LINES – THE CUSTOMER EXPERIENCE JOURNEY.

The personal lines sector is most dramatically affected by demographic change and consumer technology adoption. Its challenges in market fragmentation, customer experience, and service delivery are similar to those faced by the consumer goods and retail banking industries.

Baby boomers are rapidly entering their retirement years and downsizing their lifestyles, and generally have less need for coverage. The cohorts replacing them have significantly different expectations, lifestyles, and buying preferences. Thus, for the foreseeable future, carriers competing here face the systematic challenge of replacing relatively stable legacy books

with pared down, more volatile books of business, acquired and serviced in new ways on new platforms. The customer experience in legacy distribution channels (such as agent-driven) is also in need of fundamental re-invention, as the economics have dramatically shifted with changes in consumer behavior.

When customers choose to interact with agents or customer service representatives, they want seamless, efficient processes supported online. The landscape has changed, for example, with on-demand insurance offered on mobile platforms, linking insurance with other services at key purchase moments.

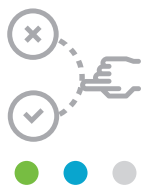
We see the winners taking a hard look at every customer touch point, including marketing, distribution, underwriting, servicing, and claims management. This includes agent/channel interfaces and linkages with business/data partners and vendors. In our view, most personal lines carriers will reap the greatest benefits by concentrating on three areas:

Exhibit 2: Personal lines – The customer experience journey.



1. DOUBLE DOWN ON CUSTOMER ANALYTICS

- Drive growth by identifying and targeting new market segments.
- Add profitable customers based on analytic insight into factors driving high lifetime value; reduce churn by understanding predictors of lapse.
- Increase customer satisfaction and retention by designing segment-specific engagement models and product/service offerings.



2. SIMPLIFY THE CHANNEL (OR DIRECT) EXPERIENCE

- Enhance the speed and accuracy of prospecting and quoting for your channel partners of choice.
- Equip your distribution force with tools to provide advice and support to determine the right coverage from among your offerings.
- In direct channels, focus on the variables driving abandonment in your quoting and purchasing process.



3. DEPLOY DIGITAL SERVICES

- Deploy tools such as robotic process automation and machine learning to drive down cost.
- Reduce channel and operations center time spent on administrative tasks; free up customer facing prospecting and sales resources.
- Automate routine tasks, and redeploy staff to judgment-based roles informed by real time data in underwriting and claims.

● Focused growth ● Efficiency ● Underwriting results

SME/MIDDLE MARKET – GET GRANULAR IN RISK SEGMENTATION, STREAMLINE AND MODULARIZE.

The SME/middle market sector is diverse and fragmented, including commercial property and casualty coverage, business owner policies, commercial auto, and workers' compensation.

Distributors are extremely adept at finding pricing inefficiencies; so coverage, terms and pricing need to be continuously monitored to prevent surprises. It's critical to focus where you can apply deep insight into risks specific to industry segments, moving into new markets very selectively.

The SME market has been growing slowly, yet many small businesses remain underinsured. For example, many are not adequately covered for business interruption, the total cost of property replacement, supply chain risk, and liability exposure, not to mention emerging risks such as cyber attacks and data theft. Based on Oliver Wyman research, an estimated 40 percent of sole proprietorships and small businesses have minimal or no coverage, while in the middle market, nearly 50 percent of companies have major coverage gaps. Growth opportunities abound for carriers in this space, with both existing and new customers.

Aggregators are becoming stronger at consolidating volume, and some have established themselves as long-term players. The few top-tier carriers, each with between four and six percent SME market share, have created significant scale advantages and are achieving near straight-through underwriting processes. For most other SME carriers, offering a complex and diverse set of coverage requirements contributes to high operating costs, slow speed to market, and undesired variability in loss performance.

For most SME players, the best path forward is to build a fact-based understanding of which segments and products are contributing profits versus losses. While this sounds simple, many carriers don't have a clear understanding of profitability at the ZIP code (or state), SIC and product level, due to how coverage is bundled and expenses are allocated. Generating this granular risk insight and moving toward a modular product architecture (which can enable rapid refreshes of product specifications and pricing) will enable SME carriers to stay ahead of the competition.

Given this intense competitive dynamic, SME carriers should focus on the following three areas to generate returns from digital investments (see exhibit 3).

Exhibit 3: SME/Middle Market – Get granular in risk segmentation streamline and modularize.



1. REFINE RISK INSIGHT AND RISK APPETITE

- Apply analytics to understand drivers of profitability in each risk class, deriving insights to systematically refresh the risk appetite.
- Improve underwriting decisioning; quote risks where you are advantaged, and turn away businesses outside the risk appetite.



2. STREAMLINE TO SUPPORT EFFICIENT AGENT INTERACTIONS

- Leverage third-party data to develop marketing campaigns, supporting growth and building long-term relationships with chosen channel partners.
- Provide tools to clearly communicate risk appetite to assist brokers in more efficiently identifying potential clients to target.



3. MODULARIZE

- Implement a modular product architecture to enable fast customization of coverage, features and pricing for evolving client risk profiles.
- Increase product development speed and reduce IT complexity.

● Focused growth ● Efficiency ● Underwriting results

In SME, carriers need to be ‘known for something’, and tailor channel interactions, processes and products to a well-defined slice of the market. Otherwise, they will not see adequate flow from the channel, or, maybe worse, random submissions, frustrating agents/brokers with poor communication and execution, and saddling the book with unprofitable risks.

LARGE CORPORATE AND SPECIALTY – THE PARADOX OF FOCUS VERSUS FLEXIBILITY.

We’ll define large corporate and specialty as programs for the Global 5000 and specialty coverage offered on an admitted or excess and surplus (E&S) basis. While the industry has experienced adequate combined ratio performance over the past few years, growth has been hard to come by, with flat rates and vigorous competition from new facilities. Most executive teams have been focused on underwriting discipline, management controls, and cost containment.

Today’s market is being rapidly reshaped by the infusion of new sources of capital, greater product specialization, and the emergence of stronger broker placement platforms. Risk managers, ever more sophisticated, now demand that carriers and brokers know how the changing risk environment applies to their industry/business.

Loss prevention, risk mitigation, engineering services, and risk management information offerings continue to grow in importance, and while these services have struggled to meaningfully contribute to profit margins, many clients are coming to view them as table stakes. The ability to work with new technologies to leverage internal and external data sources (such as the Internet of Things) and apply predictive analytics continues to increase in importance.

Broker placement platforms are emerging as powerful demand aggregators, aligned to the needs of specific industry segments. At the top of the market, consolidation continues, segment by segment and line by line, as brokers place a greater share of business on these platforms, with favored access granted to nimble carriers adept at customizing terms and pricing across multiple programs and industries.

The paradox of large corporate and specialty is the need to build capabilities supporting laser-like focus while enabling flexibility and nimbleness. As in other lines, automating routine tasks will help to reduce costs, but the greatest benefits will come from freeing up talent to focus on building channel relationships and creating new risk program solutions.

We see the maximum ROI on digital investments for large corporate and specialty business writers coming from three areas, shown in exhibit 4.

Exhibit 4: Large Corporate and Specialty - The Focus vs. Flexibility Paradox.



1. ALIGN RISK APPETITE WITH MARKET DEMAND

- Identify proprietary insight into risk drivers and pricing dynamics to target clients that can be profitably won.
- Target attractive risk profiles, and engage brokers to improve the quality of submissions matching your risk appetite.
- Rapidly adjust risk appetite and business processes to engage with new programs and placement platforms.



2. MANAGE NEW BROKER INTERFACES

- Establish linkages into the flow of new programs; customize coverage and limits to succeed in an increasingly specialized market.
- Position with brokers to emerge as a winner as they consolidate flow to fewer carriers and programs.



3. UPGRADE TALENT

- Deploy skills to the highest value-add activities. Capture and scale the knowledge of experienced underwriters and claims professionals.
- Design the digital workforce of the future: redefine key roles and develop new career paths based on agility and enabled by data.



● Focused growth ● Efficiency ● Underwriting results

SEVEN DIGITAL ENABLERS

As a practical matter, many P&C carriers are not ready to fully implement these ideas today because they lack the baseline digital enablers – data, systems and processes – required to move forward. It’s a phenomenon well known to anyone who has ever taken on a home improvement project: you set out to simply add some light fixtures or a new closet, and instead discover underlying structural problems. What looked like a simple little job is now larger and more complex.

The answer can’t be to stop construction, putting work on hold while bringing the digital infrastructure up to code. The risk of inaction is too great. Customers won’t wait and the competition is moving ahead.

A good starting point is to review your priorities and capabilities across the following seven digital technology levers:

Exhibit 5: Seven digital enablers.



1. CUSTOMER AND CHANNEL EXPERIENCE:

What are the touchpoints across the value chain where you intend to differentiate via digital capabilities?



2. SELF-SERVICE OPPORTUNITIES:

Where can you enable customers, agents/brokers, and business partners to streamline processes or transactions by using new interfaces?



3. ENHANCED APPLICATIONS:

How can applications and data be linked to enable seamless data exchange to improve efficiency, decisioning, and customer experience?



4. DATA AND ANALYTICS:

While few P&C carriers can yet claim to have excellent current capabilities, where can you begin to build decision- support tools to improve marketing, underwriting and/or claims?



5. PROCESS EXCELLENCE:

Before we digitize, are we confident that we have eliminated or reduced undue complexity, duplication or decision rules in our processes?



6. PROCESS AUTOMATION:

What are the best opportunities to deploy bots, artificial intelligence, and machine learning; and how do we guard against automating the 1980s – building complex technical tools to perform tasks that should have been simplified long ago?



7. WORKFORCE MODERNIZATION:

What are the new skills we need to embed in our organization; and who will serve as “digital evangelists” over the course of a long-term transformation as the lines between traditional IT and business blur? What workforce size will the organization require as work tasks evolve toward more analytically driven and digitally enabled?

CONCLUSION

We've made the case that successful digital investments are made with a clear focus on the proven economic leverage points of growth, efficiency and loss ratio improvement, and have described specific high payoff opportunities in each of the three major P&C segments.

While we find many C-level Distribution, Operations, Underwriting, Claims, and IT executives, working their respective digital agendas and roadmaps, we also see many organizations lacking a comprehensive roadmap; aligned across the functions and IT.

To fully capture digital's ROI potential across the enterprise, we advise a fresh look at your digital investment budget to ensure that each function, and IT, can identify the target business results and digital enablers being strengthened. This exercise typically results in a much needed re-prioritization and re-focus. Who owns this in your organization?

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