INSURANCE DIGITAL MATURITY STUDY

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ABOUT ACORD

Founded in 1970, ACORD is a non-profit organization that provides the global insurance industry with data standards that promote accurate, effective, and efficient exchange and use of information. Since its inception, when it first began standardizing P&C forms, ACORD has been an industry leader in identifying ways to help its members make improvements across the insurance value chain.

Currently, ACORD engages more than 4,000 participating organizations, spanning 20 countries. With the tools and resources provided by ACORD, these participants are equipped to deal with the current business environment while influencing and shaping the future of the industry. Learn more at www.acord.org.

Digitization. It's one of those industry terms which comes up so frequently that it hardly makes a dent in our awareness anymore. It's a concept that attracts hype, but not always quantification. Many are skeptical of its value, with little rigorous research done to measure its impact.

For these reasons, ACORD chose to discard the assumptions and develop quantitative insights on the state of digitization in the insurance value chain. Where does the industry stand? Does digital maturity correlate to value creation? What are the potential digital strategies, and are there common traits among those who have successfully executed them?

In short...**does digitization matter?**

BACKGROUND

Digitization is just one aspect of the wave of technological change currently facing the insurance industry. Certain factors in the current environment have conspired to create a situation where technology can claim an even greater potential—both positive and negative.

Resource constraints will force insurers to balance near-term results, long-term growth, and creating value through digitization.

First, current economic realities impose significant constraints. The global macroeconomic climate and the effect on expected investor returns carry implications for not only the industry's ability to manage risk, but also its capacity to allocate adequate resources to the development of digital capabilities. For the foreseeable future, insurers will have the difficult task of simultaneously managing for near-term results, positioning for long-term growth, and strategically turning the pressure of digitization forces into a value creation opportunity– all while operating under the constraints of limited investment capacity. Worldwide, the average annual growth of premiums has been 2.8% over the past three years.[1] From an investment perspective, nearly half of global insurance CIOs and CFOs remain pessimistic about the current opportunities available in the market.[2]

Because of the hyper-mature nature of insurance, insurers need to determine how to use new technology to build brand loyalty.

Key segments and geographies of the insurance industry are also hyper-mature markets, creating a zero-sum situation. With limited potential for organic growth in most lines of business, insurers are forced to primarily compete by taking an existing customer from another insurer—even if only temporarily. In this situation, consumer-buyer behavior is of paramount importance, and the dominant behavior can best be characterized as "cost-focused due diligence". One challenge in adopting new technology is determining how to use it to best take advantage of these patterns—turning passive, opportunistic value shoppers into brand loyalists.

Brand differentiation is critical to insurers. Those who don't differentiate run the risk of being vulnerable.

The insurance industry is at acritical, and possibly dangerous, inflection point. Insurers who fail to meaningfully differentiate their product may suffer from a lack of consumer-buyer engagement, give up business to competitors, and leave themselves vulnerable to disruptive new entrants. Slow-to-adapt incumbents who insist on viewing their products as commodities, competing only on price, will not be able to succeed against those able to adopt a buyer-driven approach, learning how to attract and retain customers through brand differentiation.

INSURANCE TECHNOLOGY ERAS

Insurance was one of the first industries to embrace computing technology. From the 1970's through the turn of the millennium, insurers focused on building and integrating an IT infrastructure to support existing processes, with an eye toward reducing costs. In the 21st century, with a more sophisticated understanding that they could not only cut costs but also increase revenue, these companies created new technology-driven processes to adapt their business.

The current decade has seen the emergence of a third era—at least among those leading the way—of a true integration of operations and technology. These insurers are using digital technology to position themselves for success by developing fundamentally new operating models. They are merging business and technology into one set of capabilities which will drive value through strategic flexibility and operating adaptability. While previous eras were characterized by automation and enablement, the goals of the emerging era are best achieved through digitization.

High-performing insurers, of course, are aware of these pressures, and are already acting on the critical strategic imperatives:

Insurers are not competing only with their direct competitors when it comes to customer experience.

- **Consumerization –** Consumer-buyers' demands of the insurance industry are not shaped by the insurance indus try alone. Their experiences with the ever-present online and app-based consumer environment influence their expectations for purchasing insurance. This is a fundamen tal change in the nature of insurer-customer interactions.

Insurers must be able to integrate with the industry as a whole.

- **Ecosystem integration –** Moving forward, perfecting the internal exchange of information will not be enough. In surers must be able to integrate effectively with the greater insurance ecosystem, and the increasing importance of partnerships, alliances, third parties, and vendor relationships is clear.

Gathering data is important, but insurers must ensure that data is used at the optimal place and time.

- **Data and analytics –** The industry has already poured enormous resources into the mining and aggregation of data and feeding that information into predictive models. The challenge ahead will be to develop the tools and techniques to ensure that data is leveraged at the right place and time, when it matters most.

Insurers can create strategic advantages by digitizing along the entire insurance value chain.

Digitization is the thread that ties these strategic imperatives together and allows insurers to address them effectively. Digitizing along the entire insurance value chain creates the flexibility and adaptability necessary to implement strategic advantages at the **moment of value** – for instance, when a customer is trying to bind, or there is an opportunity to cross-sell, or when a claim is being filed. Incorporating digitization as a fundamental component of operations helps to ensure that the right processes, capabilities, and organization all come together in an effective strategic operating model.

Of course, those on the cusp of adopting a digitized, consumer-driven philosophy will ask if customers are actually demanding digitization? The answer is a resounding **yes.** In the period from 2015 to 2020, the percentage of global consumer-buyers interacting with their insurers through digitized mechanisms roughly doubled.

In 5 years, the percentage of consumer-buyers interacting with their insurers through digital platforms doubled.

	2015	2020
North America	40%	80%
Latin America & Bermuda	35%	72%
Europe, Middle East, & Africa	42%	76%
Asia-Pacific	42%	77%

Insurers need to recognize that by not embracing digitization, they may limit the market in which they compete.

Even if that the assumption is made that consumer adoption levels off around 80 percent, insurers must ask themselves: **Do I really want to restrict myself to competing in the remaining 20 percent?** If an insurer's product offerings and value proposition are naturally compatible with this limited market, then this may be a reasonable strategy. Otherwise, the insurer is committing to compete in a rapidly shrinking and very competitive segment – and you may find itself very vulnerable.

SCOPE

The *ACORD Insurance Digital Maturity Study* focuses on the top 100 global insurance carriers, with three overarching goals:

- Assess each company's digital maturity relative to its peers
- Compare the extent of digital capabilities with the level of value creation
- Identify the issues, implications, and most importantly, execution imperatives around successful digitization

In this way, ACORD sought to answer the question: **Are there measurable outcomes which warrant the cost, time, and risk associated with the digitization journey?**

WHAT IS DIGITIZATION ANYWAY?

For the purposes of this study, ACORD defined digitization as capabilities which rely on data, analytics, and communications technologies. These include online and mobile distribution and service channels, advanced analytics and cognitive computing, and streamlined or automated business processes including rules-based straight-through processing. In addition to business processes, the definition of digitization also expands to the overall infrastructure and includes cloud computing, virtualized business services (e.g. business process as a service), and other electronically enabled outsourcing capabilities.

ACORD studied the top 100 global insurance carriers. In total, they generated an estimated $1.7 trillion in premium in 2016, representing 40% of the world's total premium. Together they span the continuum of insurance activities—personal and commercial; individual and group; property and casualty, life, and reinsurance.

ACORD evaluated their digital maturity across multiple dimensions, and compared it to their operational and financial performance. **The results unambiguously indicate the measurable impact of digital maturity on performance.** Further, we were able to identify a common set of attributes and capabilities among those successfully adopting digitization.

APPROACH

Using a proprietary methodology, ACORD evaluated the digital capabilities of each of the top 100 carriers and determined the relative maturity level of digitization across the enterprise. Each firm's digital capabilities were examined across the following dimensions.

WHERE IN THE WORLD

The 100 insurers studied, representing nearly of the world's annual written premium, are domiciled across the globe:

	Number of Insurers	2016 estimated written premium
North America	40	$531 billion
Latin America & Bermuda	10	$53 billion
Europe, Middle East, & Africa	34	$728 billion
Asia-Pacific	16	$401 billion

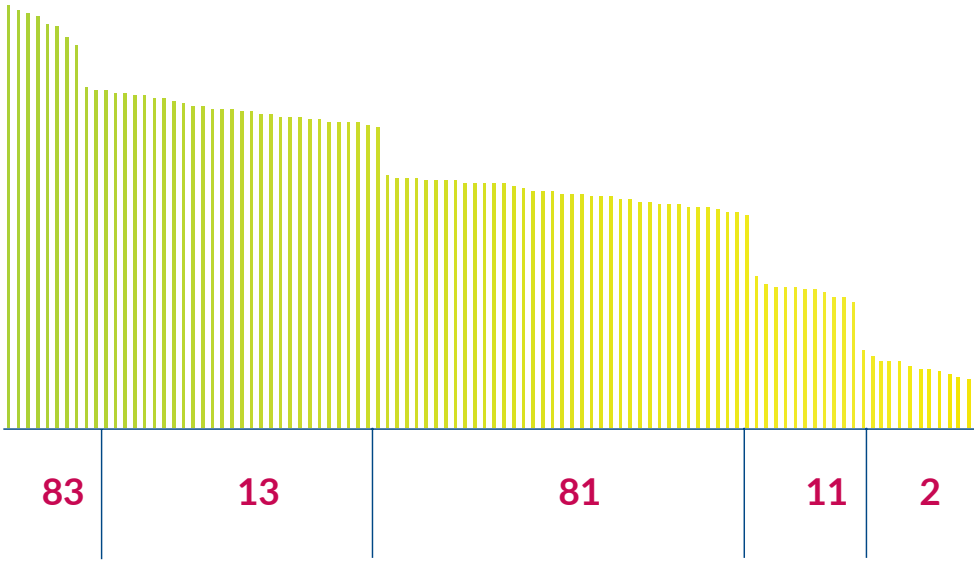
- **Consumerization – online, social media, and mobile applications**
- **Data and Analytics – big data, real-time analytics, cognitive computing**
- **Ecosystem Integration – electronic information exchanges, Internet of Things (IoT)**
- **Operational Optimization – straight through processing and robotic process automation (RPA)**
- **Capabilities – unified digital platform, digital solution development methodology, and processes**
- **Value Management – explicit plan to generate value from digitization, well defined process improvement and integration methods, and a system to measure and capture the expected value from digitization**
- **Models and Option Value – strategic positioning versus future industry direction as a result of current and planned digital capabilities**
- **Culture – receptive to innovation and change, C-suite support for digital capability programs**

EBITDA stands for "earnings before interest, taxes, depreciation, and amortization" and is a measurement of a company's operating profitability as a percentage of its total revenue.

The study included an analysis of total shareholder return, revenue growth, and free cash flow—as represented by EBITDA—over a period of five years. These financial performance metrics were combined with each company's digital maturity scores to categorize each insurer into one of five digitization archetypes.

RESULTS

Among the top 100 worldwide insurers, only about 40% have truly digitized the value chain while more than 10% are not leveraging digital technologies within their current business processes. Nearly half of the insurers in the study are still exploring how digitization can be applied against their business model.



The five levels of digital maturity identified in the study are:

- **Digitized Competitors** (8%) – Truly driving the market using digitization to shape consumer-buyer behavior, opti mize effectiveness, and achieve strategic positioning
- **Digitized Firms** (31%) – Utilizing digitization to effectively optimize for efficiency and effectiveness
- **Digital Aspirations** (38%) – Explicit intent and real resources devoted to digitization, but still in the early stages of the digital journey
- **Localized Digitization** (11%) – Isolated usage of digitization, usually focused on an immediate purpose—typically cutting expenses
- **Digital Laggards** (12%) – Limited organizational awareness, and even less execution, around digitization

In measuring against a select set of financial metrics, the study sought to determine the extent to which digital maturity had an impact on the overall success or failure of each carrier.

	Total shareholder return (absolute change)	Premium (compound annual growth rate)	EBITDA (compound annual growth rate)
Digitized Competitors	95%	4%	10%
Digitized Firms	78%	4%	10%
Digital Aspirations	62%	3%	1%
Localized Digitization	34%	2%	7%
Digital Laggards	73%	3%	8%
AVERAGE	68%	2%	6%

Among the top 100 the average, TSR outperformed most major market indices while premiums grew at a faster rate than that of the industry as a whole. However, when segmented into digital maturity categories, the metrics suggest a correlation between digital maturity and financial performance.

In general, insurers who have embraced digitization perform better.

- For the most part, increasing levels of digital maturity go hand-in-hand with performance. The top Digitized Competitors nearly doubled their shareholder returns, and both Digitized Competitors and successfully Digitized Firms saw premium and earnings growth that was double the average among the top 100 insurers.

One exception is the Digital Laggard category. Not investing in digitization may have positive short-term results, but do not help in the long-term.

- One exception is the above-average performance of the Digital Laggards. This can be explained by the fact that by ignoring digitization, they are able to instead allocate their resources to other activities—for example, dividend payouts and share buybacks—that have a positive impact on their returns. However, this is most likely a fleeting benefit. By refusing to invest in digitization, they are sacrificing long-term viability for short-term gain.

Those insurers in the middle have the lowest earnings growth, as they must pay the costs of digitization before experiencing the benefits.

- The lowest point of earnings growth rests not near the bottom of the pack, but in the middle, among the insurers with Digital Aspirations. Clearly, the digital journey requires a significant commitment of resources, and insurers must expect to pay the costs of digitization before reaping the rewards of digital maturity. There is an undeniable risk in crossing the digital chasm.

CHARACTERISTICS

A number of additional demographic factors, including organizational structure and geographic mix, were also examined. When segmented among the five digital cohorts, the results were somewhat predictable.

	Centralized	Decentralized	Federated	National	Regional	Global
Digitized Competitors	75%	12%	13%	63%	13%	25%
Digitized Firms	61%	13%	26%	32%	26%	42%
Digital Aspirations	55%	16%	29%	32%	13%	55%
Localized Digitization	45%	37%	18%	55%	9%	36%
Digital Laggards	75%	17%	8%	50%	0%	50%
AVERAGE	60%	17%	23%	39%	15%	46%

Insurers who are more centralized will inherently face fewer challenges when implementing a consistent strategy.

Insurers with higher degrees of centralization and more restricted geographical boundaries tended to cluster toward the top and bottom of the digital maturity curve. This is hardly surprising as these companies face fewer challenges in implementing a consistent and comprehensive strategic policy throughout their businesses, whether that policy is to embrace or ignore digitization.

This interpretation is further supported by the dramatic spike in decentralized structure associated with the insurers we characterize as employing Localized Digitization. A decentralized organizational model naturally encourages the sort of isolated, problem-at-hand ventures into digitization that are the hallmark of the Localized cohort.

LIFE INSURERS

Is there a difference in digital maturity between Life and Non-Life insurers? Typically, no.

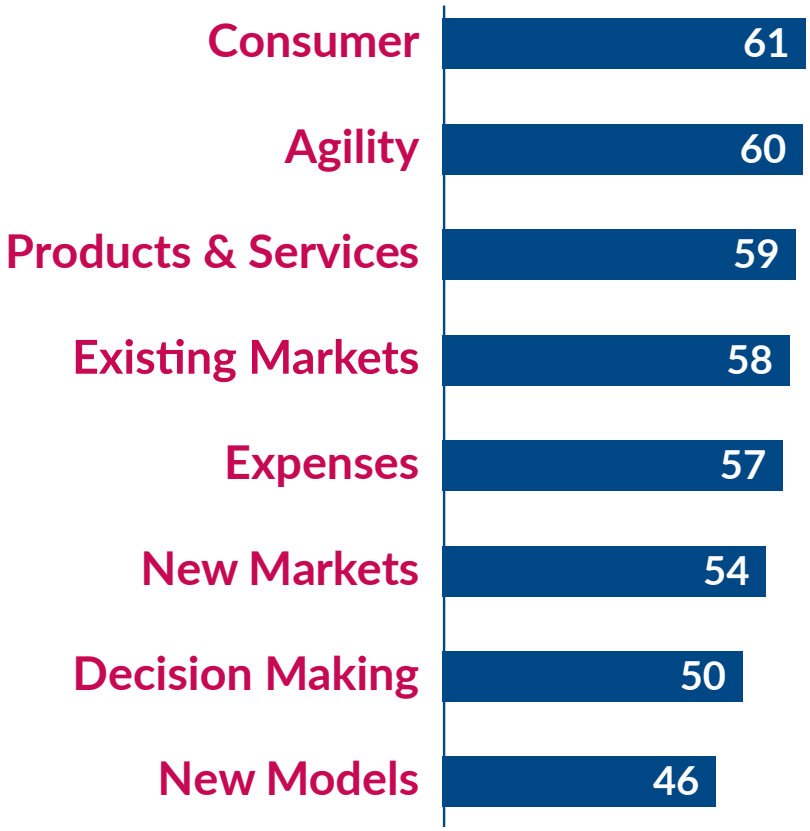
Percent of premium generated by:	Life	Non-Life
Digitized Competitors	48%	52%
Digitized Firms	39%	61%
Digital Aspirations	51%	49%
Localized Digitization	66%	34%
Digital Laggards	36%	64%
AVERAGE	49%	51%

There was, however, a sharp disparity in lines of business associated with the Localized Digitizers. The challenging financial climate facing life insurers over the past decade has encouraged many companies to focus primarily on simply optimizing expenses and staying viable, instead of investing resources toward long-term revenue growth. Their approach to digitization is consistent with isolated, bespoke solutions to specific problems.

This data shows, to some extent, who these insurers are—but what about why they choose to develop or neglect digital capabilities? **ACORD identified three key value levers enabled by digitization:**

- **Strategic positioning**
- **Revenue enhancement**
- **Expense optimization**

When asked what their priorities were in looking at digitization, the insurers cited a variety of motivations in these areas.



ACORD found that the insurers most successful in creating and sustaining value through digitization devoted thought and resources to all three key value levers. The truly Digitized Competitors have made a commitment to integrating the technology of digitization throughout their operations.

CONCLUSION

Whether they choose to accept the results presented in this research, insurers still need to decide whether or not to embrace digitization and if so, which approach they should take.

THE ONLY 4 WINNING INSURANCE STRATEGIES

When looking at the insurers who have created sustainable value in the insurance industry, their strategies can invariably be categorized into four groups:

- **Operational Excellence** – Hone efficiency to compete on price
- **Customer Intimacy** – Enhance the customer experience to compete on interaction
- **Product Leadership** – Offer unique and/or high-quality products to compete on solution
- **Disruptive Innovation** – Engage in discontinuous change to compete on speed

They're all valid strategies, and excelling at one does not give an insurer a free pass to completely neglect the others, but each winner in the insurance space has made a conscious decision to focus on one of the these four approaches.

These decisions must also be made in the context of the available winning strategies (see sidebar) in the insurance industry. Digitization will impact the outcomes arising from these strategies, either as an enabler to maximize the value generated through each strategy or as a force that will influence the choice of which strategy to pursue.

Ultimately, insurers have three options with respect to digitization:

While there are exceptions, ignoring digitization is the least recommended choice.

- **Ignore it.** Some insurers will consciously choose this option, while others may default to it by simply neglecting to formulate a cohesive policy. In the vast majority of cases, this is the least advisable choice. Those who ignore digitization are expected to either shrink or be absorbed in the long run.

If an insurer decides they won't or aren't able to implement digitization throughout the organization, they can choose to disaggregate the value chain and focus on what they do best.

- **Disaggregate.** Investing in adequate resources to complete the digital journey may seem overwhelming. Some carriers may not be willing–or even able–to implement digitization throughout their business. Since digitization is necessary to effectively compete, one solution is to disaggregate. An insurer may choose to focus on what they do best—whether it's product, pricing, distribution, claims, or any other aspect of the value chain—transform themselves into a fully digitized competitor in that space, and limit their activities to those core capabilities.

Insurers that have the resources and dedication can position themselves for success by embracing digitization throughout the organization.

- **Reinvent and become a Digitized Competitor.** While the insurance industry suffers from stronger barriers to change than most other industries, the correlation between digital maturity and results is too striking to ignore. An insurer with the resources to devote to digitization, and the dedication to outlast the inevitable growing pains, will be positioned to succeed.

What, then, is necessary in order for insurers to implement their digital strategy? As a final step in the ACORD Insurance Digital Maturity Study, we identified the implications and imperatives around the digital journey.

Insurers must align resources with their strategic intent.

The most important guiding principle is that the essence of strategic intent is resource allocation. While plans, budgets, and presentations can give the appearance of change, only the thoughtful investment of resources toward stated goals will actually accomplish the desired result. **Insurers must choose an explicit digitization strategy, align resources with intent, and address all three key value levers.** Strategic positioning, revenue enhancement, and expense optimization are each of limited value by themselves. A successful Digital Competitor must allocate resources appropriately to achieve the maximum overall benefit.

There are some key imperatives for executing the digital journey:

Digitization is an enterprise-wide effort.

- **Project and change management –** Digital initiatives must be enterprise-wide to fully succeed. The difficulties in implementing such pervasive change in the typical insurance organization are profound and must be navigated correctly.

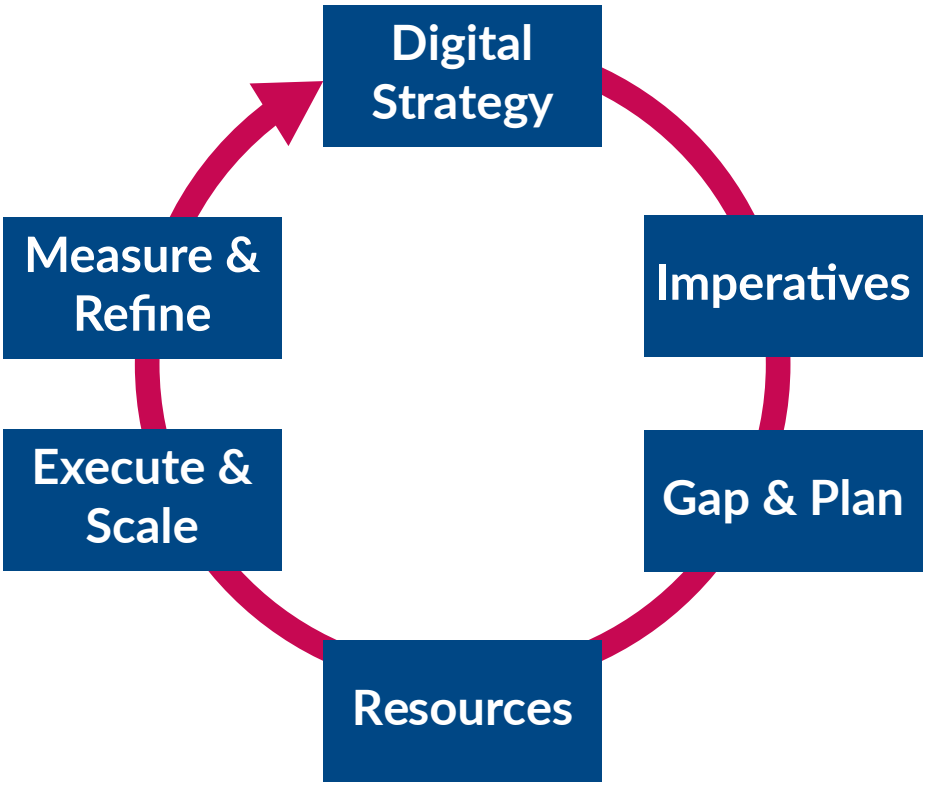
Relationships with vendors and other partners are critical to developing digital capabilities, regardless of an insurer's size.

- **Partner management –** Even the largest carriers will not have the organic tools to address every facet of the digital journey. Real, mutually beneficial relationships must be fostered with vendors and other partners in order to develop digital capabilities throughout the business.

Strategic digital initiatives will fall flat if an insurer's culture is not in alignment.

- **Culture –** Nothing can smother strategic change more quickly than an incompatible culture. While the decision between making concessions to culture and embarking on the challenging process of changing that culture can be a difficult one, insurers must do whatever they can to ensure their culture and strategic intent are aligned.

Finally, it must be recognized that digital strategy is a cycle, and each step must be addressed.



Insurers need a detailed plan in order to successfully implement.

After committing to a digital strategy, imperatives must be identified and plans detailed. While this may seem like simple common sense, the fact is that in many cases, there is a temptation to simply throw money at a problem without adequate thought. With the type of pervasive and fundamental change we are discussing, this mistake could be disastrous. Also, this is an exercise which must be repeated continually--constant refinements and adaptations are necessary to remain digitally competitive.

POSSIBLE PITFALLS

Insurers implementing a digital strategy must be wary of other potential pitfalls.

- **Insufficiently distributed rationale –** Digitization, as discussed, is a fundamental and enterprise-wide affair. Everyone from the CEO to the newest hire must understand the organization's perspective and the rationale behind its digital journey.
- **IT antagonism –** Insurers who insist on viewing IT as a necessary evil—a cost to be minimized—will never have the right mindset to digitize effectively. Digitization is a prime example of IT as an asset—a differentiator that can be the key to competitive positioning.
- **Change-averse culture –** If there's one thing insurers avoid, it's taking a risk. But the company culture must embrace the opportunities presented by digitization, not resist them through sheer inertia.

ACORD is committed to helping insurers by reducing the time, costs, and risk associated with the digital journey. Aside from our continued offering of the ACORD Standards and Architecture, we are also engaging in more research and development. As the ACORD Insurance Digital Maturity Study demonstrates, our unparalleled access to the global insurance industry allows us to provide unique insights among competitors. Additionally, the ACORD Solutions Group has begun to complement and extend the solutions available in the marketplace. Their offerings will make it easier for insurers and vendors to concentrate on the differentiators the create their competitive advantage—whether they involve digitization or any other aspect of the insurance business.

[1]Swiss Re, Sigma

[2]Goldman Sachs Asset Management, GSAM Insurance Asset Management Insurance Survey, April 2016

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