Transformational execution is key to success for insurers

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The insurance industry is undergoing a dramatic transformation driven by a number of factors, including heightened consumer expectations, unprecedented competitive pressures, the need to automate and optimize processes, and the surge in costly natural disaster payouts.

Looking at the last 2 years, the total insured share of catastrophe-related losses reached more than $240 billion.

While these challenges are formidable, so are the opportunities. In North America, the life insurance coverage gap is estimated at $200,000 per household, totaling a $12 trillion market opportunity. The collective retirement gap in the United States is another $10 trillion, which means there's a $22 trillion revenue opportunity in North America alone.

And nearly two-thirds of all global losses in the property and casualty market are uninsured. So, there are tremendous opportunities for insurers to boost their penetration rates and increase profits everywhere in the world.

Today, the best-performing 20 percent of insurers capture almost 100 percent of the industry's total economic profit (after allowing for the cost of capital), according to McKinsey & Co. research. The other 80 percent of insurance companies are struggling.

So, how are the top-performing companies separating themselves from the pack, and what strategies should insurance companies employ to gain market share?

The four key strategic imperatives that every insurer must embrace are: increasing customer engagement, broadening the insurance proposition, delivering simplification and automation, and partnering for success. However, identifying those four strategic imperatives is not enough. The leading insurers are achieving profitability not by having the most differentiated strategy, but by doing the best job of executing on their transformational strategy.

Challenging times for insurers

The challenges facing insurance companies are coming from all directions. Customers who are accustomed to doing their banking on a smartphone and their shopping online are demanding the same type of personalization, speed and service from their insurers. They want a digital, omnichannel experience, beginning with the buying experience.

Competitive and economic pressures have resulted in the blurring of the traditional lines of demarcation among agents, insurers and reinsurers. Brokers are continuing to consolidate, gaining greater market power. Beyond that, brokers are trying to become de facto risk managers, taking on greater underwriting responsibility, particularly when it comes to larger and more complex risks.

At the same time, insurers are trying to become more relevant to policyholders by increasing the amount of customer engagement while competing with brokers for the role of trusted adviser and risk manager. This tug-of-war is creating tension between brokers and insurers.

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Similarly, insurers and reinsurers are increasingly at odds. Insurers are ceding less business to reinsurers, particularly for life and simple indemnity products. This raises the competitive pressure on reinsurers, causing them to enter the core insurance market. In fact, eight of the largest 11 reinsurers are now providing primary coverage alongside their traditional reinsurance business.

Reinsurers are increasingly moving into direct specialty businesses, such as agriculture and cyber insurance. And, reinsurers are leveraging partnerships with insurtech startups, which are shaking up the entire industry with their focus on using technology innovations to squeeze savings and efficiency from the current insurance industry model.

One certainty is that insurtechs will continue to be a driving force in the transformation of the insurance market, as funding continues to flow to them at ever-increasing rates. The insurtech market is expanding at a compound annual growth rate of 28 percent, with total investment in 2018 topping $4 billion. Further muddying the competitive waters: Some insurtechs are partnering with existing players, while others are acting as a new source of market competition.

Finally, we are witnessing a rise in claims expenses, driven in part by the increasing frequency and cost of natural disasters. In 2018, wildfires in California, an earthquake in Indonesia and typhoons in Asia drove the total amount of insured losses to $79 billion, making it the fourth most expensive year on record. Looking at the last 2 years, the total insured share of catastrophe-related losses reached more than $240 billion.

Overall market conditions

It would be one thing if companies were competing for a bigger piece of a significantly expanding pie, but in many markets the growth rate is slow.

For example, the global life insurance market, which represents 61 percent of the total insurance market, grew only a modest 3 percent in 2017, with virtually all of that growth (85 percent) taking place in China. In North America, the life insurance market declined by 1 percent.

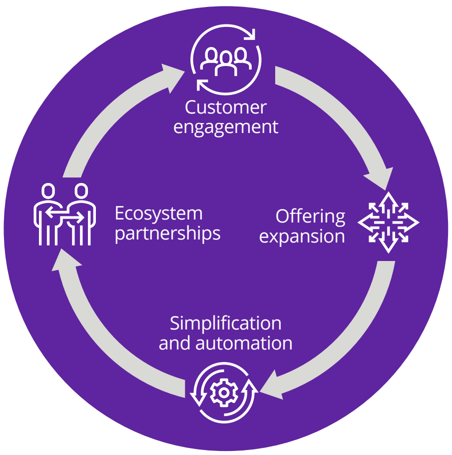
The global property and casualty market increased by a healthy 5 percent to $1.4 trillion in 2017, but the U.S. market drove more than 40 percent of that increase, mainly through higher auto insurance rates. In contrast, the overall market experienced deteriorating profitability due to the huge volume of claims in the aftermath of storms, floods and wildfires.

The reinsurance market grew by a modest 3 percent, with market capital reaching $610 billion, of which 15 percent came from alternative capital vehicles. Primary insurers ceded about 5 percent of their direct written premiums to reinsurers in 2018.

In this challenging environment, it is vital that companies focus on transformational execution.

The four strategic imperatives

Insurance companies should adopt four strategic imperatives as the foundation of their digital transformation initiative.



1. **Customer engagement.** The first strategic imperative is engaging customers more thoughtfully and doing so through the use of data for specific, relevant and timely customer insights. Companies need to use big data to accurately predict risk in a way that does not come across as intrusive to the customer.

   Insurers need to get much closer to customers, engaging them on a personal level. A deeper understanding of customers can help insurers identify and respond to life events that may trigger the need for additional or different coverage.

2. **Offering expansion.** The second strategic imperative is delivering a comprehensive offering to policyholders that provides greater value than simple indemnification. This could, for example, encompass risk advice and mitigation or contractor management after a claim.

   It might also involve the extension of core offerings into related markets, such as car financing, or possibly a larger play by establishing a compelling ecosystem on an industry platform.

3. **Simplification and automation.** Third, insurers must embrace simplification and automation across their entire value chain, from products to infrastructure. Increasingly, this automation will be driven by artificial intelligence (AI). For example, it is estimated that within the next 5 years, half of all customer service talk time will be conducted between customers and AI-driven automated systems.

   The types of products people demand now are a lot simpler, and the way insurance products are sold needs to be simpler, too. Companies offering products that are easier to understand will be the ones that attract this new breed of customer.

4. **Ecosystem partnerships.** The fourth imperative is a broadening of the company's capabilities, which will require new, deeper partnerships enabled by seamless API integration. This could take the form of partnerships with insurtechs, with other insurers, brokers or reinsurers; or new, deeper relationships with service providers and companies from outside the insurance industry.

Insurance companies will have to partner, and partner far deeper, far stronger and far broader than they've ever done before.

Successful execution across all of these imperatives will incorporate a platform-enabled strategy. This platform will be able to collect and analyze the data needed for more meaningful customer engagement and can enable the rapid integration of third-party capabilities, thereby broadening an insurer's offerings and allowing for seamless integration with robotics and AI to drive down complexity.

Conclusion: Opportunities are waiting

The insurance industry is struggling to deliver revenue and profit growth, despite a substantial market opportunity, with large swaths of middle America remaining underinsured. To serve this market profitably and build a path to sustainable growth, the industry needs to focus on execution.

It all starts with providing real and timely customer value based on unique customer insights. This is broadened into a series of capabilities that can be combined to meet a customer's future needs. And it ends with a full ecosystem-led service model that can be delivered in near real time and handled in an increasingly automated manner.

To succeed in this new world, insurers must not only embrace new products and services, but also clearly define digital transformation strategies and strive to operate more efficiently.

An incredible opportunity exists now for insurance companies to educate, inform and deliver new digital capabilities to today's sophisticated and increasingly demanding insurance customers. And it all comes down to transformational execution.

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