DIGITIZATION, AUTOMATION, AND VALUE CREATION IN THE INSURANCE INDUSTRY

Part 1 of 3

October 2017
ABOUT ACORD

Founded in 1970, ACORD is a non-profit organization that provides the global insurance industry with data standards which 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.

ABOUT SALESFORCE

Salesforce, the global CRM leader, empowers companies to connect with their customers in a whole new way. For more information about Salesforce (NYSE: CRM), visit www.salesforce.com.

Any unreleased services or features referenced in this or other press releases or public statements are not currently available and may not be delivered on time or at all. Customers who purchase Salesforce applications should make their purchase decisions based upon features that are currently available. Salesforce has headquarters in San Francisco, with offices in Europe and Asia, and trades on the New York Stock Exchange under the ticker symbol “CRM.” For more information please visit www.salesforce.com, or call 1-800-NO-SOFTWARE.
Digitization. It’s one of those industry terms which comes up so frequently that it hardly even 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.

In the ACORD Insurance Digital Maturity Study, we 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, and what are the implications?

ACORD and Salesforce have partnered to expand this research into digitization and automation in the insurance industry. Part 1 of this three-part series presents the conclusions of the groundbreaking ACORD Insurance Digital Maturity Study. Part 2 will evaluate the relationship between sales force automation, digitization, and value creation, and Part 3 will identify the implementation methodologies and execution best practices of the insurance carriers making the most effective use of these technologies.

**BACKGROUND**

Digitization is just one aspect of the wave of technological change currently facing the insurance industry. Certain factors in the current environment have combined 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 its effect on expected investor returns carry implications for not only the industry’s ability to manage risk, but also its capacity to allocate resources to develop 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.
Also, key segments and geographies of the insurance industry are hyper-mature markets, creating a zero-sum situation. With limited potential for organic growth across most lines of business, insurers are forced to compete by taking existing customers from other insurers—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.

The insurance industry is at a critical and uncertain inflection point. Insurers who fail to meaningfully differentiate their offerings will suffer from a lack of consumer-buyer engagement, give up business to competitors, and leave themselves vulnerable to disruptive 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 and customer-centric capabilities. The assets offered through Salesforce provide differentiating capabilities which will enable carriers to deal with this reality.

Insurance customers and employees are demanding digitization. In the period from 2015 to 2020, the percentage of global consumer-buyers interacting with their insurers through digitized mechanisms is expected to double, eventually reaching a level of nearly 80 percent. Employees have the same expectations of digital interactions; 71% of employees expect their companies to provide them with the same technologies they use in their personal lives. Insurers who do not embrace digitization will be severely limiting the market in which they compete, and will also have a hard time attracting and retaining talent.

Because of the hyper-mature nature of insurance, insurers need to determine how to use technology to build brand loyalty. Brand differentiation is critical to insurers. Those who don’t differentiate run the risk of marginalization. In the near future, a clear majority of customers will expect to interact with their insurers digitally.
High-performing insurers, of course, are aware of these pressures, and are already acting on three critical strategic imperatives:

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

- **Ecosystem integration** – Moving forward, perfecting the internal exchange of information will not be enough. Insurers must be able to integrate effectively across the greater insurance ecosystem, as the increasing importance of partnerships, alliances, third parties, and vendor relationships becomes more ubiquitous.

- **Data and analytics** – The industry has already poured enormous resources into the mining, aggregation, and analysis of information. 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.

**Digitization is the thread that ties these strategic imperatives together and allows insurers to address them effectively.**

Digitizing 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 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.
SCOPE AND APPROACH

The ACORD Insurance Digital Maturity Study focused 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, and
- 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?

Combined, the insurers in the ACORD study represented over $1.7 trillion in premium in 2016, comprising 40% of global market share. Together these companies covered all major lines of business, including personal and commercial; individual and group; property and casualty, life, and reinsurance. Using a proprietary methodology, the relative maturity level of digitization across each enterprise was determined based on the following dimensions.

- **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

ACORD compared each carrier’s maturity level across these dimensions to its operational and financial performance. 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. The results unambiguously indicate the measurable impact of digital maturity on performance.

Parts 2 and 3 of *Digitization, Automation, and Value Creation in the Insurance Industry* will examine automation of marketing, sales, and service processes to determine how strongly this impacts the performance of top carriers, and develop insight into how to best use these tools to drive value creation.

**RESULTS**

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, optimize effectiveness, and achieve strategic positioning
• **Digitized Firms (31%)** – Utilizing digitization to effectively optimize for efficiency and effectiveness
• **Digital Aspirations (38%)** – Investing with explicit intent and resources devoted to digitization, but still in the early stages of the digital journey
• **Localized Digitization (11%)** – Using isolated instances of digitization, usually focused on an immediate purpose - typically cutting expenses
• **Digital Laggards (12%)** – Demonstrating limited organizational awareness, and even less execution, around digitization – perhaps ignoring it altogether

The study found a strong correlation between digital maturity and performance.

The top 100 global carriers are broken down into 5 categories ranging from Digitized Competitors to Digital Laggards.
By measuring against a select set of financial metrics, the study determined the extent to which digital maturity had an impact on the overall success or failure of each carrier.

<table>
<thead>
<tr>
<th></th>
<th>Total shareholder return (absolute change)</th>
<th>Premium (CAGR)</th>
<th>EBITDA (CAGR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Digitized Competitors</td>
<td>95%</td>
<td>4%</td>
<td>10%</td>
</tr>
<tr>
<td>Digitized Firms</td>
<td>78%</td>
<td>4%</td>
<td>10%</td>
</tr>
<tr>
<td>Digital Aspirations</td>
<td>62%</td>
<td>3%</td>
<td>1%</td>
</tr>
<tr>
<td>Localized Digitization</td>
<td>34%</td>
<td>2%</td>
<td>7%</td>
</tr>
<tr>
<td>Digital Laggards</td>
<td>73%</td>
<td>3%</td>
<td>8%</td>
</tr>
<tr>
<td><strong>AVERAGE</strong></td>
<td><strong>68%</strong></td>
<td><strong>2%</strong></td>
<td><strong>6%</strong></td>
</tr>
</tbody>
</table>

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.

- For the most part, increasing levels of digital maturity drive improved value creation. The Digitized Competitors nearly doubled their share prices, and both Digitized Competitors and successfully Digitized Firms saw premium and earnings growth that was twice the average of the top 100 insurers.

*In general, insurers who have embraced digitization perform materially better.*
One exception is the Digital Laggard category. Not investing in digitization may have positive short-term results, but will not help in the long term.

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

Any particular digitization initiative will focus on strategy, revenue, or expense. The most successful adopters keep all three in mind when formulating their objectives.

Another important characteristic separating digitally mature companies from the rest is the motivation behind their investment in digital capabilities. The goals and objectives behind any particular digital implementation initiative will focus on one of three key value levers: strategic positioning, revenue enhancement, and expense optimization.

<table>
<thead>
<tr>
<th>Category</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer</td>
<td>61</td>
</tr>
<tr>
<td>Agility</td>
<td>60</td>
</tr>
<tr>
<td>Products &amp; Services</td>
<td>59</td>
</tr>
<tr>
<td>Existing Markets</td>
<td>58</td>
</tr>
<tr>
<td>Expenses</td>
<td>57</td>
</tr>
<tr>
<td>New Markets</td>
<td>54</td>
</tr>
<tr>
<td>Decision Making</td>
<td>50</td>
</tr>
<tr>
<td>New Models</td>
<td>46</td>
</tr>
</tbody>
</table>
Those insurers most successful in creating and sustaining value through digitization clearly devoted more attention and resources to all three key value levers. Truly Digitized Competitors centered their digital investments on several objectives across all three value levers, because they have made a commitment to integrating the technology of digitization throughout their operations.

**RECOMMENDED ACTIONS**

Given the business and technology evolution underway across the global insurance industry, insurers will need to decide whether or not to embrace digitization and if so, which approach they should take. Ultimately, insurers have three options with respect to digitization.

- **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.

- **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.

- **Reinvent and become a Digitized Competitor.** While the insurance industry has strong barriers to change relative to 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.

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

*If an insurer is unable to fully digitize, they can choose to disaggregate the value chain and focus on what they do best.*

*Insurers that have the capacity to effectively digitize can position themselves for success by embracing digitization throughout the organization.*
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:

- **Senior Executive Buy-in** – Digital transformation will require change in strategy, process, technology, and people. Given the scope of this change, the digital journey must be driven from the top – the CEO and his/her C-Suite. The commitment must be ongoing. Senior executive buy-in from both business and IT leadership communicates to both customers and employees that the company is serious about the journey and that the journey is important.

- **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.

- **Partner management** – Even the largest carriers will not have the organic tools to address every facet of the digital journey. Substantive, mutually beneficial relationships must be fostered with third parties in order to develop digital capabilities throughout the business.
• **Digital engagement platform** – Carriers must select a digital engagement platform that enables consistent user experiences across multiple channels and across phases of the customer lifecycle. The engagement platform should enable flexibility in changing the user experience independent of rigid backoffice systems. This will be critical to creating customer experiences that drive user adoption.

• **Culture of innovation** – Shared values, work norms, and organizational rules of engagement can either positively or negatively impact change. The decision between making concessions to culture and embarking on the process of changing that culture can be challenging. Insurers must do whatever they can to ensure their culture and strategic intent are aligned.

• **Agile methods** – Digital journeys are subject to rapidly changing user requirements over time. Carriers should ensure that their IT and business talent are trained in agile methods that deploy new capabilities in iterative sprints rather than traditional waterfall methods that may be less flexible and longer in time-to-value.

• **Quantified business value** – Clarifying what defines success, what key performance indicators to use, and collecting and analyzing that data is necessary to build the business case for continued investment in the digital roadmap. Quantifying business value also provides the insights to improve the design or execution.

---

*The proper digital engagement platform is a necessity for winning over customers.*

*Strategic digital initiatives will fall flat if an insurer’s culture is not in alignment, or if their methods are not agile enough.*

*Effective execution depends on defining the proper metrics, and following through.*
Finally, it must be recognized that digital strategy is an iterative cycle, and each step must be addressed.

- **Digital Strategy**: This step makes clear what the vision is, and why that vision is important to the firm. Careful thought is put into how the digital strategy aligns with the overall corporate strategy. At this stage, it is important that senior executives agree on the answer to the question "WHY must we take action?"

- **Imperatives**: After committing to a digital strategy, imperatives must be identified and success criteria defined, particularly as they relate to the 3 levers of strategic positioning, revenue enhancement, and expense optimization. This answers “WHO are we serving, and WHAT must we do?”

- **Gap & Plan**: Here, the firm must understand the gap between today’s pains and tomorrow’s vision. Those gaps must be prioritized such that finite resources can be optimally allocated. This answers “WHAT are we solving for, and HOW will we do it?”

- **Resources**: Once priorities are known, the firm can allocate the two key resources it has at its disposal: talent and money. Here, the firm must decide “Do we buy, build, or partner?”

- **Execute & Scale**: An agile, iterative approach by nature will execute in manageable “sprints,” starting in areas or “beach heads” that drive the most business value or quick wins. This

**Insurers need a detailed plan — tasks, timing, resources, deliverables, and dependencies — in order to successfully execute digitization.**
could be a specific functional area, line of business, or geography. The firm builds upon reusable assets that enable it to scale and grow to new areas. Here, the firm decides, “WHERE do we go next?”

- **Measure & Refine:** The success criteria and key performance indicators (KPIs) that were defined earlier in the Imperatives Step may provide early indications of a need to course-correct. It is important not to try to measure everything, but to be clear on “WHICH are the most important measures of success...to our customer?” The customer may be the policyholder, agent, employee, or other stakeholder. Examples of common KPIs for digital transformation efforts may include:
  - Customer KPIs such as net promoter scores, renewal rates, and conversion rates.
  - Employee KPIs such as onboarding time, turnover, and revenue per employee.
  - Process KPIs such as average resolution time, average time to settle a claim, and not in good order (NIGO) rates.
  - Financial KPIs such as revenue per policyholder, combined ratio, and strike rates.

**TO COME**

Part 2 of *Digitization, Automation, and Value Creation in the Insurance Industry* will analyze the ways in which the top 100 carriers utilized sales force automation techniques and resources, and the effects this had on value creation.

In Part 3, we will explore the best-in-class implementation methodologies common to the top performers, identify the relevant execution imperatives, and discuss the strategic and tactical implications of digital maturity expressed through sales force automation.

A more complete discussion of the *ACORD Insurance Digital Maturity Study* can be found in the ACORD Research Library, at [https://www.acord.org/Knowledge/Resources/Library/](https://www.acord.org/Knowledge/Resources/Library/). This research is freely accessible as a benefit to all ACORD members, or available for purchase to the public.