

HBR Blog Network

Insurance Companies' Untapped Digital Opportunity

by Tanguy Catlin, Pradip Patiath and Ido Segev | 11:00 AM March 24, 2014

Consumers fumed over the rollout of Healthcare.gov and the state health insurance exchanges last fall. First, they couldn't get online. Then, once they did, the information was hard to understand. For consumers accustomed to easy shopping on Amazon or eBay, choosing a health insurance plan online was an exercise in frustration.

That frustration highlights how important it is for insurers – not only health insurers, but also property and casualty and, increasingly, life insurers – to master digital. While retailers and cable companies moved their businesses online years ago, many insurers, struggling with legacy technology and outmoded organizational structures, are playing catch up. And yet a shift to digital would improve performance across three areas:

1. The ability to mine the digital data consumers leave behind on the internet, social media, driving apps and even health-monitoring wearables could help carriers to better target customers, price and underwrite policies more accurately, and manage claims more effectively.
2. The simple digitization of existing insurance processes (allowing quotes to go straight through processing, for example, and rapid product configuration) could yield strong improvement to operating profit margins.
3. Increased digital marketing could improve opportunity to connect with existing customers, allowing firms to better upsell, cross sell and retain valuable customers.

Based on our experience, a thoughtful digitization program can deliver up to 65 percent in cost reduction, a 90 percent reduction in turnaround time on key insurance processes, and improve conversion rates by more than 20 percent.

Yet, while insurance companies all understand that digital is having an impact on their business, few appreciate how fast and how fundamentally the business is changing. In a recent McKinsey survey of the digital practices of more than 30 leading U.S. and European P&C and life insurers, 39 percent had not articulated a digital strategy across the customer decision journey at all. While most insurers do focus their digital efforts in marketing (83 percent) and sales (78 percent), carriers have focused on the early stages of the customer decision journey (supporting research and quotes) and lagged in their post-purchase ability to serve existing customers digitally).

Some carriers' budgets are so fragmented they cannot even tally their total digital spending, while others have so many organizational silos that it's impossible to get any alignment on digital direction and scale. In fact, only 50 percent of carriers have budgeted for long-term digital goals, and just 30 percent have a multi-year investment plan to support digital.

So what does digital excellence in insurance look like? Based on our survey, we found that the top performers consistently do the following things well:

1. They have a digital strategy that's well defined along the lines of marketing, sales and service—and well-informed by customer insights. In fact, digital leaders know their customers so well that 50% of their interactions with them are personalized.
2. They've placed bets on specific digital capabilities for the future (such as mobile) and have invested to rapidly build those capabilities.
3. Their operating model and governance are suited to the organization's digital maturity, size and capability levels. As the organization's digital maturity increases, many digital functions become decentralized and are integrated into broader business unit activities.
4. They have good talent: 80 percent of their digital talent has digital experience (e.g., from leading academic institutions and digital organizations), and over 60 percent have a rigorous digital training program in place.
5. They're committed to a test-and-learn culture: top digital performers reward risk-taking as part of the learning process. They have robust analytics in place, with 85 percent of their digital spend measurable in terms of return

on investment.

Any effort to become a great digital insurance carrier must begin with a deep understanding of consumers and their shopping journeys. Today's consumer decision journey is a highly iterative and fluid process, where digital tools make it easy for consumers to check out brands, compare offers, and get recommendations. For example, as auto insurance shoppers move from gathering information through the quote and purchase phases (and beyond to post-purchase support), they are more open than ever to considering new brands and dropping considered brands at each step. Most consumers no longer stick to a preferred channel from start to finish. Some 33 percent of shoppers will switch carriers when it comes time to purchase. We've found that about 70 percent of car shoppers start their shopping online, and many are heavily influenced by word-of-mouth (including social media) along their journey.

The digital carrier takes advantage of those insights, and others, to inform which battlegrounds are most critical for success, which processes to digitize for a better customer experience, and how to use digital data to inform business decisions, such as whom to target and how to price a policy more accurately. For instance, Progressive has been very focused on the initial consideration and moment-of-purchase battlegrounds. To that end, it has developed the Progressive app, which makes buying insurance simple by generating quotes for auto insurance from just a photo of the applicant's license.

Other insurers, who focus more on the experience phase of the journey, have digitized claims. Those insurers offer apps that allow people who've been in an accident to file claims via their phones directly from the scene of the accident, often eliminating the need for an appraiser. Taking mobile one step further, USAA is piloting voice-activation software that could turn customers' phones into virtual clerks, drastically cutting the costs of customer service.

Harvesting digital data has enormous potential in a world where people leave vast amounts of information behind from the websites they visit, the words they search, and the social media posts they make. Numerous carriers are already mining data on social media to provide their agents with real time information about their policyholders' life events (moves, job changes, new babies) for sales, and similarly using digital data to curb fraudulent claims. Progressive has sold more than 1 million snapshot policies where driving behaviors are monitored, and the data collected helps it tailor its pricing.

Parsing digital data could help insurers figure out a driving score, which customers to attract, and how to decrease payouts for fraudulent claims. While there are important privacy issues to address, the benefits for both insurers and customers would be significant.

Just as Darwin found that the survival of the fittest was not necessarily a function of the strength or intelligence of species but rather their adaptability, so too with successful businesses. Senior insurance executives will need to figure out how to adapt, or risk having their businesses left behind as the industry evolves.

Special thanks to Jen Mathissen for contributing to this article.