

Insurance Practice

Restore and reimagine: Digital and analytics imperatives for insurers

As the world recovers from the COVID-19 crisis, insurers should invest in digital and analytics capabilities that will make them more customer-centric, simple, tech driven—and competitive.

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When the world paused (and reorganized) its usual activities to contain the spread of COVID-19, many insurers demonstrated great resolve. As operations stabilize—even as the macroeconomic environment does not—the next phase must be focused on embedding resilience and flexibility in organizations and reimagining insurance for the next normal.

The COVID-19 crisis will cause structural shifts that will have significant implications for the insurance industry. An extended period of volatility, uncertainty, and depressed economic activity will accelerate ongoing changes in consumer behavior, needs, and expectations. Some of these shifts will be irreversible.

Demand for digital interactions will spike and stay elevated. In such an environment, digitally enabled intermediaries and digital-only sales models are proving to be effective and may be accelerating the winner-take-all trend.

Customers will also be more acutely aware of their personal and health risks and will demand solutions to help them better manage these risks. These shifts, combined with ongoing economic pressures, will require insurers to develop radically simple solutions, highly efficient operating models, and consistently innovative business models.

Accelerating investments in digital and analytics initiatives that have long been under consideration is a crucial strategic choice. Such investments can be the difference between slowly declining and flourishing. Indeed, our research shows that across sectors, revenue growth (as measured by the five-year compound annual growth rate) for digital leaders is on average four times that of companies that only dabble in disjointed digital initiatives.¹ For many insurers, capturing the business value of digital and analytics capabilities will require rapid upgrades to technology platforms. Insurers have no time to lose.

Restore and reimagine

Strategic investment in comprehensive digital and analytics capabilities will help insurers develop a more detailed understanding of their clients and determine the best ways to serve them. The work is not only about technology; it will also require significant investments in reskilling (and upskilling) employees and reimagining the way they work.

Insurers should prioritize seven crucial digital and analytics imperatives.

1. Digital upgrades for all channels

Human interaction will remain pivotal in the future, but stakeholders will expect all interactions to have digital support. For instance, field agents will adapt to remote selling with prioritized leads for the “next-best conversation.”² Insurers will also use analytics-derived segmentation to ensure retention, which is especially important during the pandemic, and to support cross-selling to microsegments. By going digital, intake functions will support rapid information gathering and become consistent for all customers and intermediaries. This consistency will be empathetic and low-stress for customers. Finally, insurers will use digital and analytics capabilities to shape remote recruiting for intermediaries and service staff.

Such digital and data-driven interactions are already in use. One North American financial-services company uses proactive prospecting, which predicts which prospects will have the highest value, to increase their top advisers’ volume of new business by 10 to 15 percent.

2. Customer lifetime value for better retention and continuous engagement

Retaining and growing revenue from an existing customer is usually a better bet than acquiring new clients. During the pandemic-fueled crisis, insurers should therefore find ways to be relevant

¹ For more on becoming a leading digital company, see Tanguy Catlin, Jay Scanlan, and Paul Willmott, “Raising your Digital Quotient,” June 2015, McKinsey.com.

² The “next-best conversation” applies analytics to an organization’s existing data and knowledge about its customers to suggest ways to engage them.

During the pandemic-fueled crisis, insurers should find ways to be relevant to their customers and engage them.

to their customers and engage them. Customer engagement in this context requires an insurer to understand the customer's lifetime value through the lenses of acquisition costs, insurance risks, cost to service, cross-sell potential, and retention. While some insurers are already promoting retention with auto-premium refunds and up-front commission payouts to brokers, maintaining a clear view of economic viability and customer value will be key to long-term recovery. Following the crisis, insurers can further prioritize and improve customer engagement by continuously fine-tuning their understanding of customer value.

3. Friction-free underwriting and granular pricing

Digital quoting and purchasing are becoming must-haves for all types of insurers. In life insurance, AI engines can enable fluid-free underwriting informed by public and private data—accessed with customers' consent. In property and casualty, auto insurers have launched mobile apps that allow customers to get an instant quote by submitting a photo of their driver's license.

Despite the importance of digital solutions, many insurers struggle to fully digitize onboarding across business lines. These incomplete digital onboarding experiences often lack core functionality in areas such as document verification, payments, and digital signatures. With no in-person option to accomplish these tasks, insurers should prioritize comprehensive digital onboarding now. More-granular pricing (based on better data capture) is a key way to finance these investments. For example, a European insurer improved the combined ratio of its small- to medium-

enterprise business by more than five percentage points over three years with enhanced loss-prediction modeling and automated underwriting decisions.

4. AI-driven capabilities for more empathetic service

Insurance clients tend to look for clear answers during times of uncertainty. Digital capabilities for the service organization, particularly the call center, will be critical to offering empathetic service. Some insurers use AI to transfer information between channels and create a seamless omnichannel experience, letting chatbots and virtual agents provide quick service and transferring customers to traditional agents as needed. Insurers with a good understanding of why customers are calling can optimize calls and route them to the most appropriate service professionals.

5. Next-generation claims model from intake to payout

Companies with the capabilities to tap their troves of claims data can create predictive models that significantly improve claims outcomes. They can conduct more effective return-to-work monitoring, for example, and create better guidelines for workers' compensation and disability. Others will improve severity prediction and early intervention, including identification of claims likely to jump in severity, such as short-term disability claims that become long-term disability claims, auto bodily injury claims, and worker's compensation claims. A North American auto insurer produced a 3 to 5 percent improvement in payout accuracy

for auto bodily injury claims and a 5 to 8 percent improvement in settlement time by using a predictive severity model to identify which claims should be sent to specialized claims handlers.

Claims are a promising area for mining additional value. Insurers should invest in digital capabilities for straight-through and low-touch claims processing—starting with digital-first notice of loss.

6. Workforce reskilling and new ways of working

To remain at the forefront of the industry, insurers will need to have numerous employees with the right technical skills and the commitment to continuously upgrade these skills. Hiring the digital talent needed to drive the necessary digital and analytics transformation can be expensive and time consuming. In response, leading insurers are investing in long-term reskilling and upskilling to harness the capabilities of their existing workforce through personalized digital learning.

In parallel, insurers are accelerating the adoption of agile practices. Several insurers across North America, Europe, and Asia have started to reorganize into agile tribes and squads that cut across business, IT, and other support functions. Switching to agile ways of working helped these insurers bring their products to market two to four times more quickly, improved customer satisfaction scores by 10 to 25 percent, and raised productivity by 10 to 30 percent.³

Finally, leading insurers use talent-to-value diagnostics to ensure that they match the right

talent to high-value processes, all while building the most important capabilities when reskilling the workforce.⁴

7. New products and ecosystems

Insurers should aspire to become more relevant to their customers—to position themselves not just as claims payers but as partners that help prevent losses and support customers through challenges. Now could be a good time to innovate and scale up work on new products and ecosystems that reflect new customer needs—for instance, in health and prevention.

Ecosystems can also enable new growth,⁵ help attract and retain customers, and make products more viable. Some innovative insurers are partnering with external players to offer customers a full suite of services through external application programming interfaces (APIs) and warm handoffs between companies. Insurers should identify partnership opportunities that align with their business strategies and focus on a few partnerships that can deliver value at scale. This approach helps maintain focus and maximize payoff when working with partners and within ecosystems.

Insurers should not postpone their digital and analytics agendas. They can approach the current moment as a chance to reimagine and rapidly prioritize upgrades in their technology platforms. The time to act—and to tap into the resulting business value—is now.

³ For more on agile organizations, see Wouter Aghina, Karin Ahlback, Aaron De Smet, Gerald Lackey, Michael Lurie, Monica Murarka, and Christopher Handscomb, *The five trademarks of agile organizations*, January 2018, McKinsey.com.

⁴ For more on linking talent to value, see Mike Barriere, Miriam Owens, and Sarah Pobereskin, "Linking talent to value," *McKinsey Quarterly*, April 2018, McKinsey.com.

⁵ For more on deriving value from ecosystems, see Tanguy Catlin, Ulrike Deetjen, Johannes-Tobias Lorenz, Jahnvi Nandan, and Shirish Sharma, "Ecosystems and platforms: How insurers can turn vision into reality," March 12, 2020, McKinsey.com.

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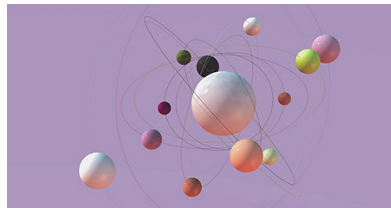
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