Digital Underinvestment Hurts Insurers

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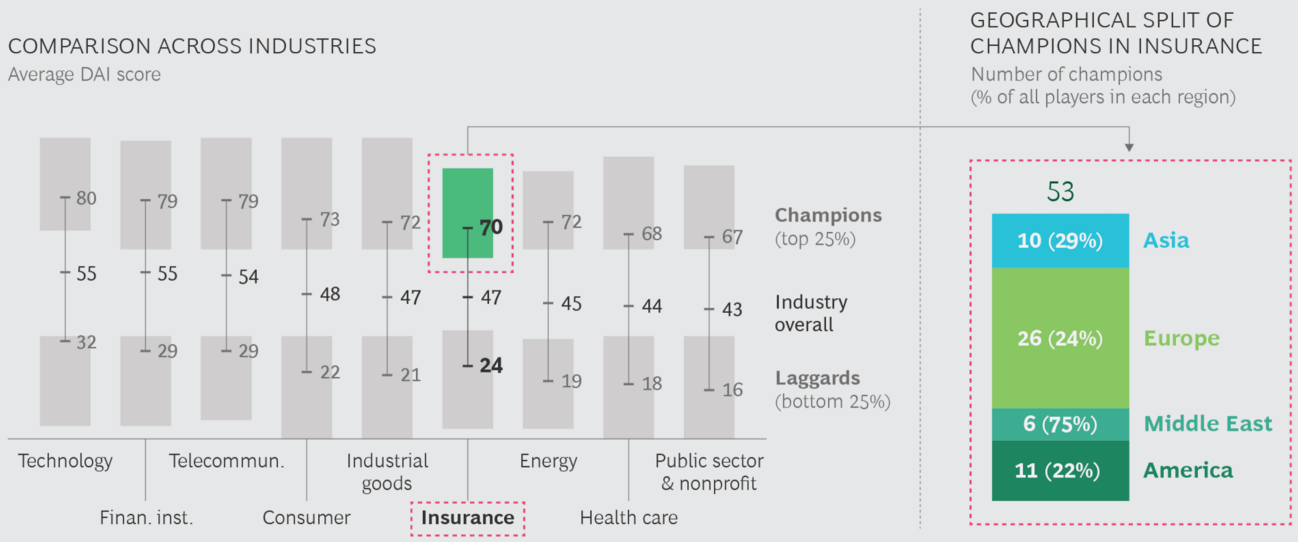
Most insurers are underinvesting in digital initiatives and are steadily falling behind the industry's "digital champions"—companies prioritizing those investments and building digital organizations. For years, uncertainty about how to digitize, the associated costs, and the return on investment have held back many insurers from taking bold steps. But recent Boston Consulting Group research found that digital investments pay off quickly for insurers, across vital business metrics of revenue, cost, and customer satisfaction.

DIGITAL CHAMPIONS OUTPERFORM PEERS

Among global industries, insurance is one of the least digitally mature, making it a tempting target for disruption. Among the 1,800 companies across nine industries that BCG surveyed in 2019 for the annual Digital Acceleration Index (DAI)—a tool to measure companies' digital maturity—insurance scored an average of 47 out of 100. That score was 14.5% below the financial institutions industry which, along with the technology industry, led other industries with an average DAI score of 55. [1] (See Exhibit 1.)

EXHIBIT 1 | Most Insurance Companies Lack Digital Maturity, but Some Champions Exist in All Regions



Source: BCG DAI Assessment.
Notes: n=585 for Tech; n=543 for FI; n=258 for Energy; n=365 for Health care; n=423 for Public sector; n=200 for Insurance; n=365 for Telecom; n=920 for Consumer, n=1523 for Industrial goods.

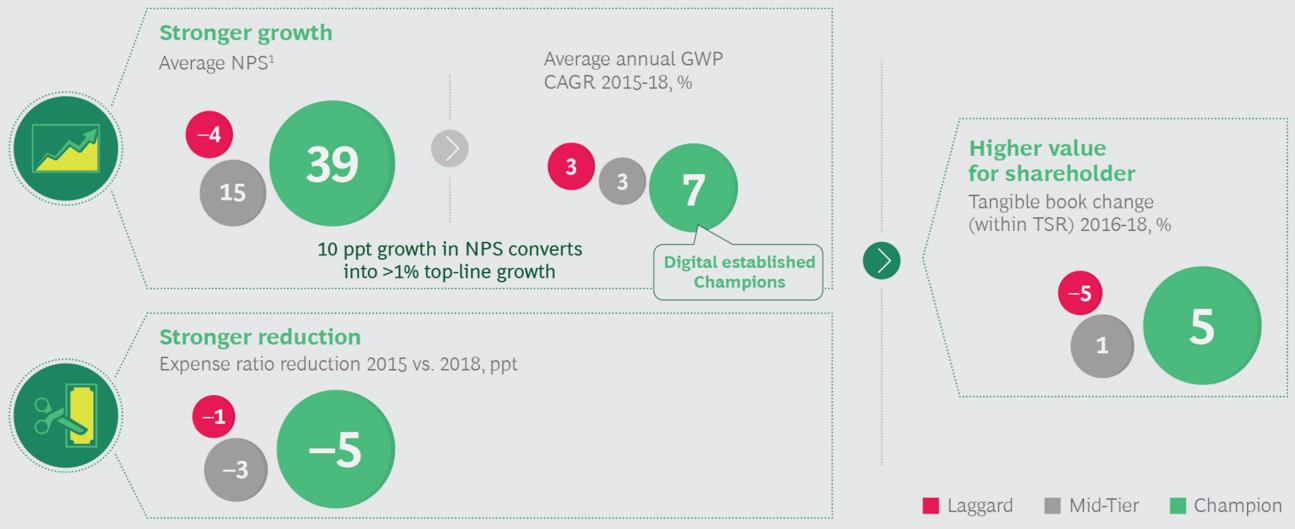
> Among the 200 insurance companies in this study, 53 qualified as digital champions.

Using the DAI 2019 data as a starting point, BCG took a deeper dive into the insurance industry to better understand the dynamics at play. We found a wide range of digital maturity within the sector. For this study, we defined “digital champions” as the top quartile of insurers and “digital laggards” as the bottom quartile. Among the 200 insurance companies in this study, 53 qualified as digital champions. (We included 53 champions in the top quartile because several companies have identical DAI scores.) These champions came from all geographies and, counter to what some might expect, most champions did not come from Asia. Europe actually led the way, with half of all champions globally.

Using data from 2017 to 2019, we analyzed 14 of these champions more closely and found that their higher digital maturity correlated strongly with performance, surpassing less digitally mature peers on several important business metrics: client satisfaction, revenue growth, and expense reduction. Those three drivers result in a

higher shareholder return, so their digital investments are generating true value. (See Exhibit 2.) The link is so strong that we believe digital investment is not merely correlated to better performance but is a primary cause.

EXHIBIT 2 | Digital Maturity Pays Off—Champions Clearly Outperform Laggards



Source: BCG DAI benchmarking with 52 insurance companies.
¹Calculated as share of promotors less share of detractors, on a scale from -100 to 100.
Notes: n=37 for GWP growth, n=28 for expense ratio, n=21 for NPS, n=16 for TSR; Digital champions, Mid-tier, Laggards are defined as the top, middle, and lowest quartile of DAI scores in the DAI insurance sample (n=200).

Note that laggards in digital performance managed to outperform mid-tier players on total shareholder return, compensating for their drop in tangible book value (given limited investments in digital) with a higher dividend yield. Mid-tier players appear stuck in the middle—bearing the cost of investment in digital without fully capturing the benefits.

WHAT SETS CHAMPIONS APART

Given such compelling results, BCG took a closer look at how a selected group of insurance companies rose to become digital champions—a group that included big multinational players as well as midsize local insurers.

> Digital champions focus on their efforts: they do not try to be all things to all people or the best at everything.

First, it takes considerable investment to become a champion; champions spend an average of 16% of their operating expenditures (OPEX) on digital and commit 18% of full-time equivalents (FTEs) to digital pursuits. By comparison, laggards on average spend 6% on OPEX, and they commit only 6% of FTEs to digital.

Second, digital champions fully embrace new ways of working to support the digital organization—for example, they adopt agile in large parts of the organization and scale up the digital talent pool.

Third, they focus their efforts: they do not try to be all things to all people or the best at everything. That is true even of the big, multinational players.

HOW CHAMPIONS FOCUS THEIR EFFORTS

To differentiate themselves, they focus their investments in certain digital areas, depending on their strategy. We categorized each insurer based on its strongest DAI dimensions, and ultimately identified five archetypes of digital champions. (See Exhibit 3.) Notably, we found all five archetypes among multinational players as well as midsize local insurers—proving that size alone does not dictate success or a certain strategy. The five archetypes are as follows:

- **Data players** need access to an immense amount of data, either through frequent client interactions or third-party sources. They create a digital and data platform, develop new technology capabilities, improve data governance, and strive to implement use cases at scale to unlock benefits across the value chain. In our work in the industry, we have seen a data player improve fraud detection by 250% and increase its hit ratio on prospect leads by 20%.

- **Innovators** set an innovation and ecosystem strategy and build a variety of innovation vehicles (such as incubators and accelerators) to develop new offerings. They then support those offerings with financial and human resources and the appropriate governance and operating model. We have seen innovators increase revenue by more than 100% and increase earnings before interest, tax, depreciation, and amortization by more than 10%.
- **Sales digitizers** aggressively address existing and emerging customer needs, issues, and demands. They focus on delivering highly personalized product, pricing, and customer experience. With such a focus, we saw at least one sales digitizer improve its conversion rate by 400% and boost its average premium by 50%.
- **Operations optimizers** look end-to-end across the customer journey to reimagine their internal processes and operating model. Their goal is to improve productivity, flexibility, quality, and speed. For example, one insurance company mapped 15 key customer journeys across the company as well as critical pain points. It streamlined governance to eliminate work duplications that slowed the customer journey (a major pain point) and adjusted KPIs and reporting to establish clear links between work and business outcomes at the individual team level. By developing a claims app and digitizing the claims process, the insurance company improved its operational productivity by 20% to 30% and reduced claim-resolution times from one to two months to just three days for 35% of claims.
- **Digital natives** are startups that are digital players by design. Not surprisingly, they have a high digital maturity in all dimensions. This is an archetype where an established insurer usually builds a standalone organization from scratch or buys an existing InsurTech with a competitive advantage.

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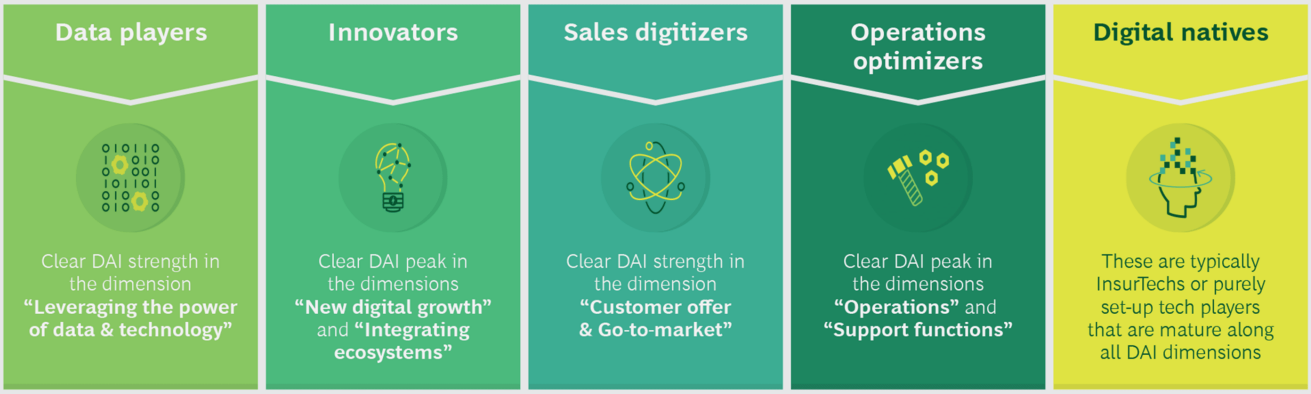
Digital maturity still eludes most insurers, making the industry vulnerable to disruption from digital attackers.

EXHIBIT 3 | Five Archetypes Within Focused Players

Allocation of archetypes among the champions, based on their one or two strongest DAI dimensions, where the score is significantly above their overall DAI score



Source: BCG DAI Assessment.

Digital maturity still eludes most insurers, making the industry vulnerable to disruption from digital attackers. Insurers know this, but they’ve been reluctant to embark on the digital journey, in part because they’re uncertain how to digitize and what the costs and the return on investment might be. Mounting evidence suggests strongly, however, that investment in digital yields real and meaningful business results. Digital champions consistently outperform peers on all crucial business metrics. This is not merely correlation; it is a direct result of companies’ focused digital investment.

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