

Be bold: How insurance CIOs will achieve real transformation

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As insurers around the world start to compete based on organizational agility and flexibility, pressure is mounting on the IT function. Many leading insurers have been working aggressively over the past several years to adapt their businesses for the digital world, including transforming their core systems and IT estate. Yet most continue to struggle to achieve the type of agility and flexibility they require to win in the market. It's time for insurers — and their CIOs in particular — to be bolder in their approach to transformation.

Standing atop a burning platform

One would be hard-pressed to deny the urgent need for transformation in the insurance sector. Heightened competition and continued low interest rate environments are putting renewed pressure on costs and margins. Evolving regulatory requirements are adding complexity and risk. Above all, customer expectations and preferences are rapidly changing. And — seizing the opportunity inherent in this disruption — new competitors and Fintech and Insurtech firms are starting to challenge the market positions enjoyed by traditional insurers.

Competing as a digital player is raising the stakes and increasing the urgency.

As the external environment changes, most insurers continue to acknowledge what they have known for a long time — that their complex IT estates and platforms are inhibiting their ability to transform their businesses to compete in the digital world. Many large insurers have gone through significant inorganic growth and operate a complex patchwork of legacy infrastructure, applications and core systems that are too fractured and too rigid to support the new digital needs of the business.

Many are rethinking their IT operating models. Having moved aggressively towards outsourcing over the past decade, some now find themselves constricted by their cost-driven service agreements. And few seem to possess the appropriate skills and capabilities to drive sustainable innovation across the enterprise.

A growing appetite for change

Recognizing the massive transformation barriers and challenges they face, insurers have been taking dramatic and aggressive steps to catalyze fundamental change across their IT organization and estate.

Most have focused on improving the agility and responsiveness of their IT delivery capability. In fact, in a recent global survey of 160 insurance IT leaders conducted by Harvey Nash and KPMG

International, almost seven out of 10 CIOs said they were implementing Agile methodologies within the IT function. More than a third of our respondents said they were applying a 'multi-modal' IT model. And a quarter said they were exploring strategic partnerships that might improve their overall agility and responsiveness.

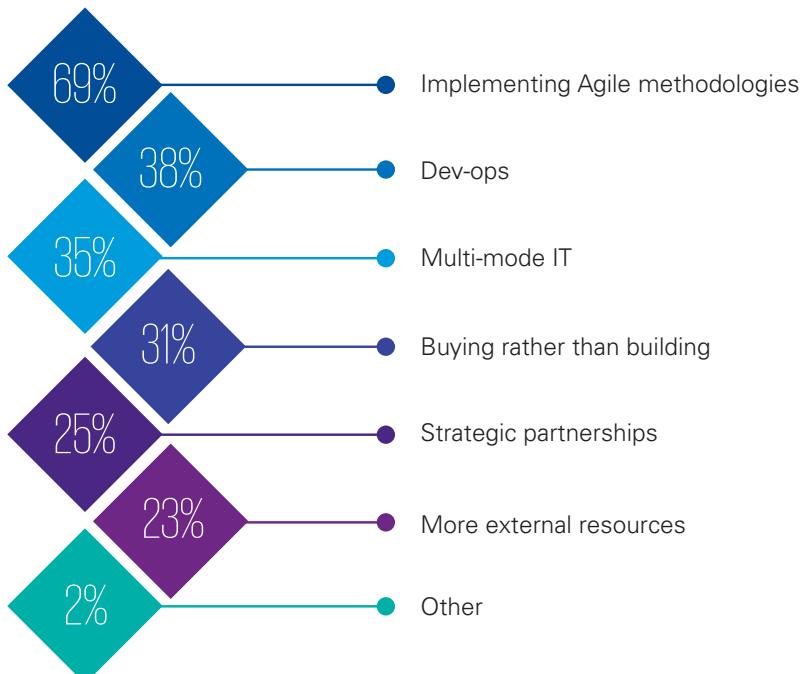
At a country and business level, we have seen insurers undertake significant change programs to transform the IT estate. Indeed, we are working with a number of industry leaders who are literally tearing out and replacing their entire core systems and moving platforms to the cloud to deliver the flexibility and agility they know the business requires in order to win in the new environment.

What is Agile?

Agile is a 'methodology' that integrates business and IT together to help organizations develop technology-enabled business capabilities and solutions at pace. More than just a set of IT principles and practices, Agile requires a supportive culture, robust processes and new capabilities to deliver value.

Given that Agile methodologies tend to deliver improved business agility, there is often confusion around the use of the word. In general, the market tends to capitalize the use of the word 'Agile' when referring to the methodology and to use the lowercase when using 'agile' or 'agility' as an adjective.

What steps are you taking to become more agile and responsive?



Source: Harvey Nash/KPMG Survey, 2016

Struggling to achieve scale

The problem is that — while there have been some remarkable successes and improvements in business agility and flexibility — few have managed to successfully and sustainably scale their transformation programs up to an enterprise or group level. Many businesses have successfully implemented new core systems within business units such as claims. However, when it comes to creating an end-to-end

integrated transformation, success is hard to find, despite significant investments. The level of technology integration required, together with business process change and shift from a functional view to customer journey perspective combine to create a level of complexity that is causing challenges.

Our conversations with insurance business and IT leaders also suggest that many organizations are facing challenges becoming

Making it real: case study

A global composite insurer has strategically invested over the last two years to significantly simplify their technology estate to support digitization. Creating a clear vision for a simplified and standardized IT architecture, this organization has driven down their annual IT run costs by more than US\$50 million through initial data center rationalization and has created a foundation to support an Agile technology capability.

The program will ultimately result in a simplified architecture where more than 70 percent of users are supported by virtual desktops, data centers will be reduced by a factor of 10 and servers will be more than 80 percent virtualized.

Building a clear vision from the start with a strong mandate from the board has been an essential factor in driving this success.

an agile organization. In some cases, this is simply due to traditional mind-sets and ways of working. But in many other cases, our experience indicates that insurers may not be applying the right level of rigor or extent to which they apply Agile approaches to ensure they deliver meaningful results.

Agile development approaches can certainly help move an insurance business towards faster and more responsive models and capabilities. And they can help create a more collaborative and cooperative environment between IT and the business. But to achieve the benefits of Agile at scale, insurers need to establish the fundamentals that underpin Agile and provide the structure to drive real results (including the right methodology, critical path, rigor, culture and infrastructure architecture). They must recognize that truly becoming agile calls for new ways of business and IT people working together.

A more strategic purpose

However, our view of the market suggests that a number of insurers are now making significant progress in their transformation initiatives, driven largely by CIOs and IT functions that are fundamentally reinventing the foundations upon which the business operates.

In part, this is due to a tangible shift in expectations for the IT function. Insurance CIOs and IT leaders recognize that the business now expects them to not only manage costs, but also help drive growth. According to our survey, 56 percent of

insurance CIOs say their management board is looking to IT to increase operational efficiencies. At the same time, however, 48 percent also say that the business is looking to IT to help develop innovative new products and services. More than half (51 percent) expect IT to deliver sophisticated business analytics and intelligence to the business.

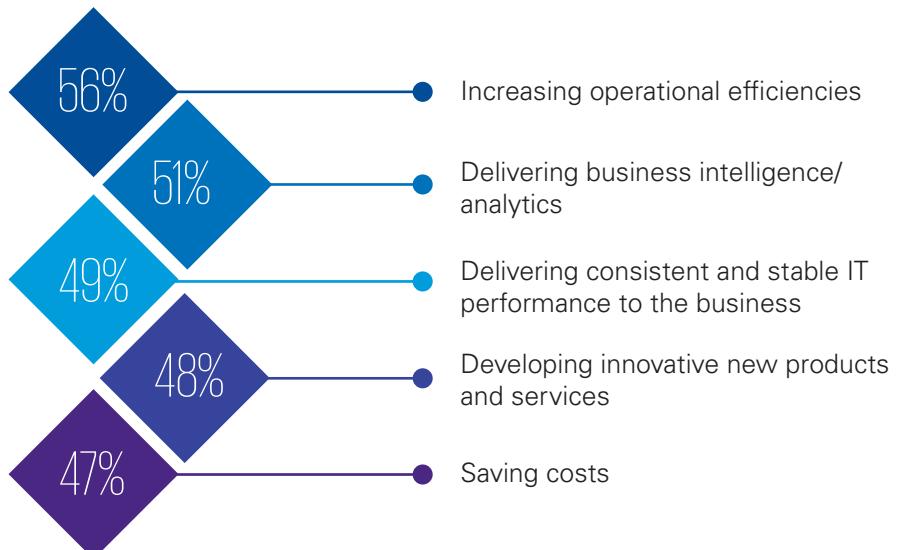
Insurance CIOs and IT leaders recognize that their role is less about controlling the entire IT estate and more about collaborating and building trusted and value-adding partnerships with the business and external service providers. Leading CIOs no longer fret about the 'decentralization' of IT spend into the business. What they are really worried about is whether they are helping their businesses understand and gain access to digital business capabilities while also providing the right core IT environment and service levels for the business to succeed and innovate in a safe and secure manner.

Building the foundation for transformation

Our experience working with leading insurers suggests that CIOs and IT leaders (with the support of their executive committees) will need to move more aggressively and decisively if they hope to scale up their transformation initiatives and deliver technology that supports growth.

To start, insurers will need to be ruthless about rationalizing their current IT estate.

What are the key business issues that your management board is looking for IT to address (top 5)?



Source: Harvey Nash/KPMG Survey, 2016

Every effort must be made to reduce IT complexity, simplify systems and processes, and improve accessibility and agility. Demand from the business for variation will need to be rigorously challenged and assessed in concert with the business to drive consistency and limit unjustified variety. And every system and process — from policy and administrative platforms through to claims processing and customer data — will need to come into scope.

Insurance CIOs and IT leaders will also want to take a hard look at their current sourcing agreements and partnerships to see how they might start to create a more balanced relationship with their providers. The reality is that traditional insurance outsourcing agreements had been driven primarily by cost considerations and did little to support agility or innovation. Today's leading insurance CIOs are starting to engage with their providers in a different way, looking to rebalance the relationship to drive new behaviors that balance agility, cost variability and innovation.

Time to be bold

By simplifying the IT estate and reviving their control over their supplier portfolio, insurance CIOs and IT leaders should be able to move towards enabling many of the technologies and approaches that enable sustainable transformation in the sector. Agile and dev-ops approaches, for example, require automation and thrive on simplification.

Digital labor (including robotic process automation and cognitive automation) is starting to find its way into the technology toolkit for insurers and offers new ways to improve quality and responsiveness at lower cost. Connecting these solutions with legacy systems will certainly be facilitated by having a less complex IT estate. We are seeing some real-life examples

of organizations starting to practically address this topic:

- Large life insurer has established Robotic Process Automation Center of Excellence to identify opportunities to digitize labor.
- Large global P&C insurer is integrating cognitive capabilities to streamline underwriting processes.
- Finance function of a global P&C carrier is deploying Class 1 rules based on automation to drive efficiencies.
- Global multiline insurer is leveraging automation to aid personal lines subrogation recoveries.
- Global provider of insurance, annuities and employee benefit programs has identified opportunities to automate HR functions and is currently looking to expand the program to its core insurance operations.

Ultimately, we believe that insurance CIOs and IT leaders will need to be bolder in their objectives and more ruthless in their execution if they hope to deliver agility and flexibility to the business. They will need to think more strategically about how they unite the strategic with the functional to build the business case for, and deliver the execution of, a fundamental IT transformation. And they will need to focus on building collaborative business partnerships across the organization.

The need for IT transformation in the insurance sector is clear. And the appetite for a more agile and flexible IT environment is high. With some leaders now starting to make significant progress, it seems clear that success will go to those CIOs and insurance organizations willing to be bold. ■

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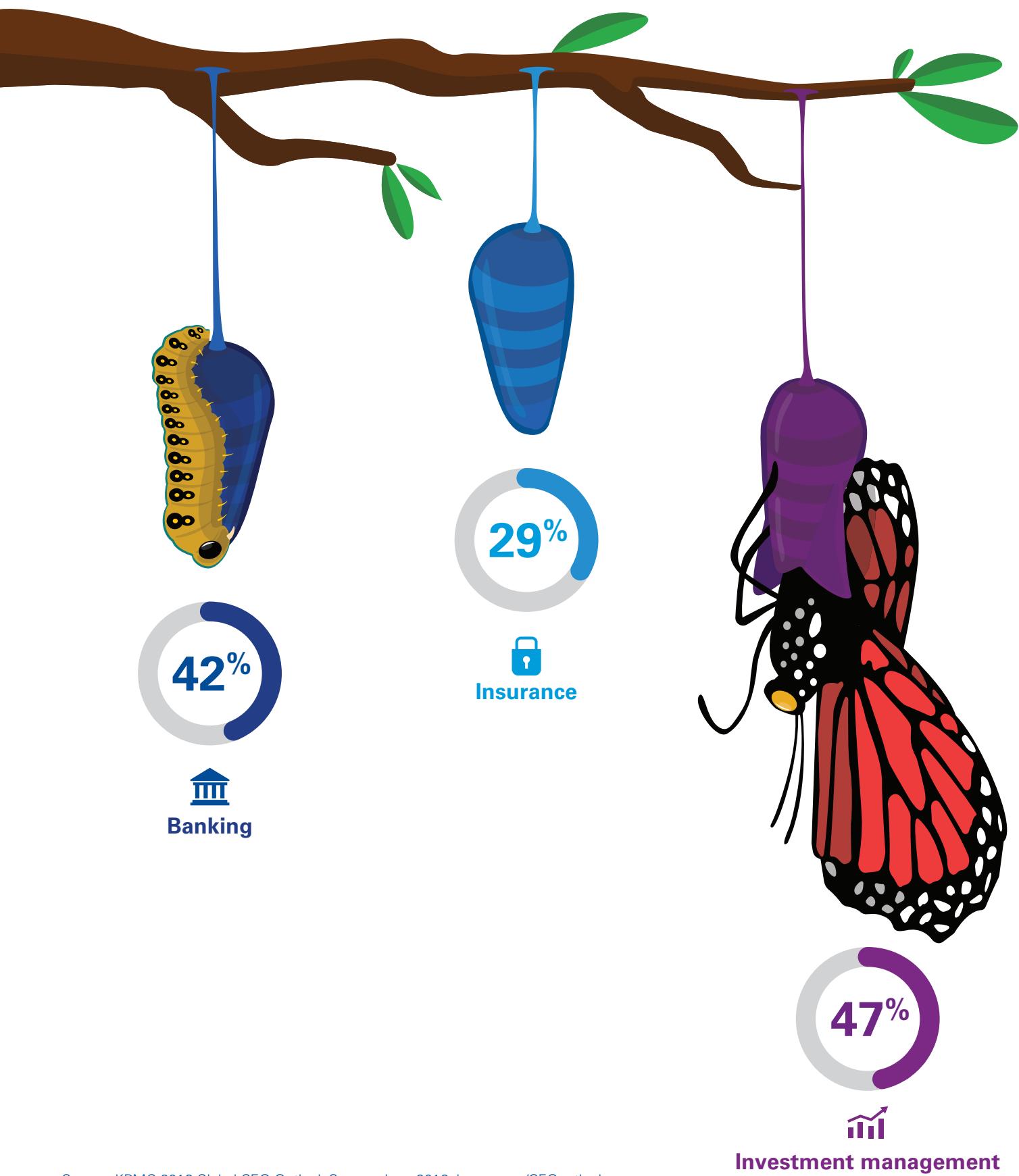
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Marc is a managing director in KPMG's CIO Advisory practice. He has more than 30 years of domestic and international experience helping clients drive business value through the strategic and effective use of technology. Marc is primarily focused on IT strategy and transformation, IT enterprise architecture, pre-deal due diligence and planning as well as post-deal integration, planning and implementation, among other areas.



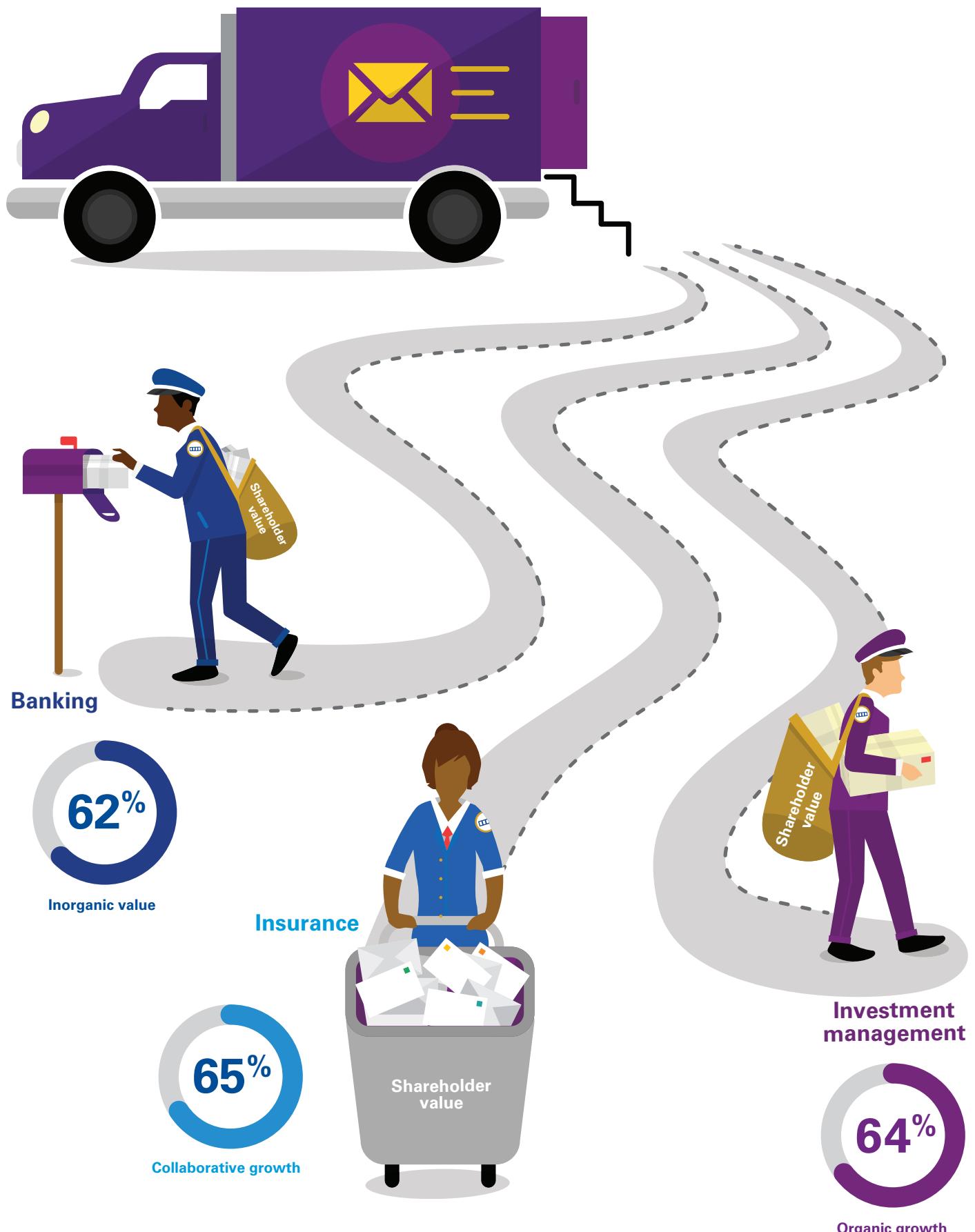
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The number of CEOs who believe their company will be transformed into a completely different entity over the next 3 years.



Source: KPMG 2016 Global CEO Outlook Survey, June 2016, kpmg.com/CEOoutlook

What CEOs believe will deliver top shareholder value over the next 3 years.



Source: KPMG 2016 Global CEO Outlook Survey, June 2016, kpmg.com/CEOoutlook