



Becoming a digital insurer: where to begin



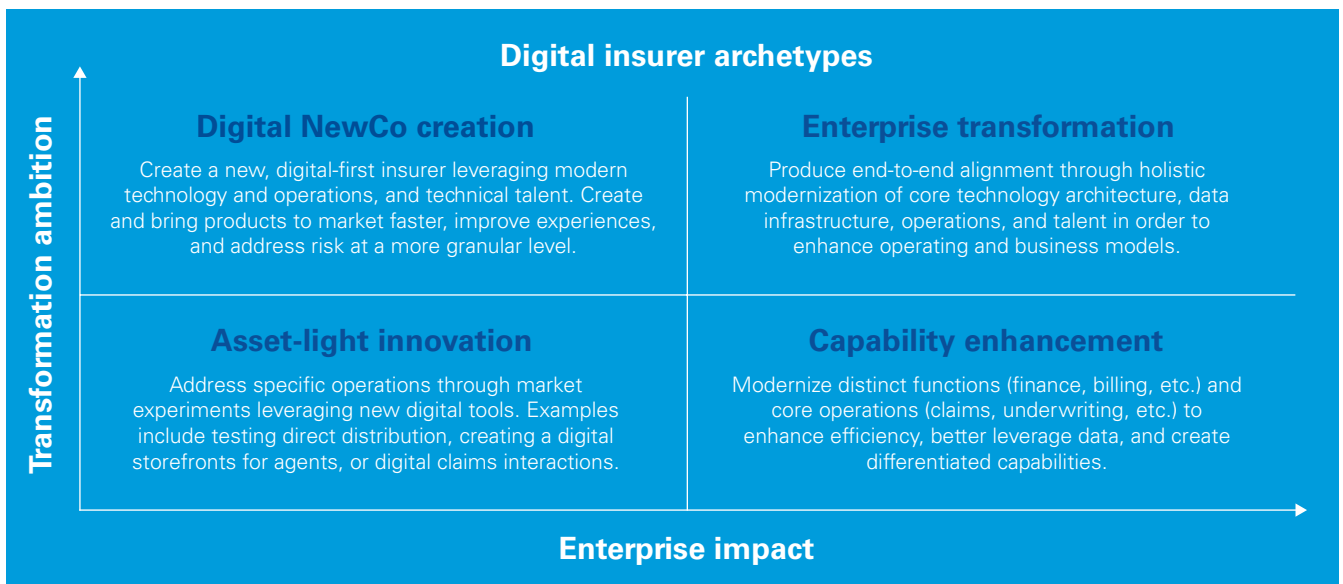
Responding to the COVID-19 situation and its impact on their business has been a necessary priority for insurance carriers for much of the year — but this hasn't dampened carriers' longer-term ambitions. If anything, COVID-19 has accelerated them, 64 percent of insurers surveyed in *KPMG's 2020 CEO Outlook: COVID-19 Special Edition*, are prioritizing investment in buying new technology and digitization.

Carriers worldwide have watched companies in many industries, including their own, transform themselves and their businesses through investments in digital technology and re-inventions of business processes. Many carriers, well aware that their business and technology have changed little in decades, are more eager than ever to launch a digital transformation of their own as the world turns its attention to economic recovery in a new reality. But how?

Digital transformation: Four archetypes

There is no one-size-fits-all solution when it comes to digital transformation. It takes many forms, each involving a different level of complexity, time, resource commitments, financial investment, and risk. However in our experience working with clients, we've found

that digital transformation projects in insurance tend to fall into one of four broad categories, or archetypes: asset-light innovation, capability enhancement, digital NewCo, and full enterprise transformation. In reality, transformation initiatives aren't so cleanly delineated, but this provides a useful model for understanding an organization's options and deciding on a way forward.



Source: KPMG analysis, 2020

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Two main factors drive the separation of the four archetypes: the organization's transformation ambition, and the extent of the impact of the transformation on the enterprise. Carriers should consider these factors in order to choose a transformation path:

- We define transformation ambition as a measure of what carriers are driven to achieve through their transformation, aligned to focus areas (e.g., growth, efficiency, risk assessment), desired outcomes (e.g. initial learnings vs. major improvements), and risk tolerance (e.g., investment, market response, execution).
- Enterprise impact is the degree and scale of change that carriers plan to achieve through their transformation, including factors such as executing in new or existing lines of business, addressing key capabilities necessary for change, and the carrier's position in the market.

As the COVID-19 situation comes under control and a broader recovery begins in earnest, carriers will be able to move forward with their digital transformation plans at a pace that makes sense for them. Some carriers may want to test the digital waters before embarking on larger-scale change; some may be ready, willing, and able to launch a full-scale transformation of the entire organization. Most will fall somewhere between, and those that find success will likely root their endeavors in traditional metrics like improving loss ratios, decreasing customer acquisition costs, and increasing customer satisfaction and retention.

Asset-light innovation

Asset-light innovation describes transformation initiatives designed to experiment at a small scale, test a hypothesis, or develop a proof of concept. They often involve relatively straightforward but potentially impactful changes to the customer experience or distribution channels. A carrier might use this form of transformation to experiment with direct distribution, capture more customer data in order to better understand customers' needs, or to develop a digital "storefront" for its agent network in order to improve their ease of doing business.

This approach to digital transformation offers carriers a way to use what they've learned to determine whether an opportunity exists to continue forward and do more. It's a way carriers can hedge their bets on digital transformation, making comparatively low-stakes plays until they discover something to go all-in on. From a risk perspective, asset-light innovation poses comparatively little downside; however, the upside of these investments may be somewhat capped by their limited scope. This has been significantly enhanced by the rise in opportunities to

partner with insurtechs and other technology companies for capabilities, scale, and speed to market.

Digital NewCo creation

This is a form of digital transformation that is growing in the insurance sector: establishing a completely new — insurer using a modern technology stack and digital-first operations. Launching a digital NewCo can be a way for carriers to bring a new product or distribution channel into the market without the burden of a legacy business. This form of transformation can work for carriers willing to invest the resources — and those with a clearly identified market opportunity.

Digital NewCos can deliver significant benefits, from a superior customer service to a nimble, scalable offering. But building a completely new, digital-first carrier from the ground up is a challenging undertaking that poses great risk. Carriers need to build and market a new brand in a time of increasing customer acquisition costs and competition for consumer attention. They need to attract and retain the right talent to bring technology to market in a time when leading technology companies struggle to fill these roles. And they need to do this without the experience of being a technology company in the first place.

Capability enhancement

This form of digital transformation often involves enhancing and modernizing back-office functions, such as finance or billing, or core operations such as claims and underwriting. Carriers may choose to migrate certain functions to the cloud, or invest in new workforce tools. Typically, such transformations help reduce costs, improve efficiency, or boost a carrier's ability to harness data. In some cases they can help secure a new competitive advantage or set a carrier apart in a crowded market.

Digital transformations focused on enhancing a carrier's functional capabilities pose somewhat more risk than asset-light innovations. They can take longer, and their execution is more complex. Moreover, the outcomes may not be entirely optimal — because any upsides may be largely confined to a function that's effectively siloed from the rest of the organization.

Enterprise transformation

This archetype represents the 'big one': a large-scale, end-to-end, multi-year digital transformation of a carrier's entire organization. Enterprise transformations leave nothing untouched in the drive to remake the carrier's operational and business models. Technology is just the launchpad for a wave of change that impacts operations, processes, talent — and more.

Enterprise transformation isn't for the faint-hearted. It may have the greatest opportunity for truly transformational outcomes, but it's also the costliest, most challenging, and riskiest form of digital transformation. A carrier that chooses to embark on an end-to-end transformation runs a serious risk of cost overruns if the focus on execution isn't laser-like. Finding the talent required to carry out such a program can be very difficult. And should the transformation stumble, a carrier may find its business slowed or even halted — with no way of returning to its traditional, tried and true ways of doing things.

That said, few carriers are likely to launch headlong into an enterprise transformation without first taking small but important steps towards digital transformation as described in the other archetypes. Learnings and insights from a capability enhancement, for example, could help a carrier determine whether and how to develop new digital capabilities.

There are many paths to becoming a digital insurer

COVID-19 may have compelled many companies to accelerate their plans, but it certainly brought home the message that the future of insurance is inevitable — and digital. As we all adapt to the new reality and businesses and economies recover, insurance carriers that don't embrace digital transformation at some level will risk their competitive position in a challenging, fast-changing world. But digital transformation doesn't have to be a massive, costly, risky undertaking. There are many paths to becoming a truly digital insurer, and many of them can move carriers in the right direction: forward.

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