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FINANCIAL SERVICES

Capturing value from the core

Insurers' existing customers, brands, data, and technical skills are valuable business assets if they can be catapulted into the digital age.

There is plenty of talk about how digital technology will affect consumers' need of insurance. The advent of autonomous cars will reduce the requirement for auto insurance, for example, while monitoring by the Internet of Things will lead insurers into businesses that help consumers mitigate risk rather than simply protect against it.

Without doubt, insurers must take a hard look at what the future might hold and strategize accordingly. But in the nearer term, customers' insurance needs will change less radically than the ways in which those needs can be met with digital technology—and there is considerable value to be had from a carrier digitizing existing business as a result. We estimate, for example, that a typical large auto insurer could, over a five-year period, more than double profitability by harnessing the power of digital to attract and satisfy more customers, while simultaneously cutting operating costs and improving pricing and underwriting accuracy. (See “Facing digital reality” for further details of this analysis.)

It is crucial such value is captured, as it is only by digitizing the core that insurers will be in a position to compete over the long term, however the industry evolves. Doing so will generate the funds for future investment as well as build the skills and capabilities that will be the hallmark of successful carriers.

Capturing this shorter-term value is no easy task. Existing customers, brands,

data, and technical skills are valuable business assets, but they need to be catapulted into the digital age. That will require the reinvention of the core business and the rethinking of decades-old beliefs and practices, with more rigor and determination than most insurers have shown in the past. Simply hooking digital assets—a digital sales channel or a snazzy new service app—on to an analog business model does not make a digital business.

Existing customers, brands, data, and technical skills are valuable business assets, but they need to be catapulted into the digital age.

Instead, carriers need to digitally redesign entire customer journeys—from the moment a customer considers taking out a new policy to the moment of purchase, for example, or from the moment a customer needs to make a claim to the moment of reimbursement. That in turn will require an integrated approach: the digitization of customer-facing processes and the seamless automation of back-end ones.

Redesigning customer journeys

Central to capturing value from the core business is recognizing how digital can drive a fundamental shift in the way companies interact with customers. No longer do customers have to contend with what, from their perspective, are slow and frustrating processes defined by a carrier's internal functional silos and technical limitations. Instead, digital technology and the redesign of customer journeys can help them to move quickly and seamlessly across channels and touchpoints, and deliver personalized communications. Indeed, digitization in other industries has led customers to expect nothing less than this level of ease and convenience.

The redesign of a customer journey model has three components. The first is design thinking—putting customers at the center of the business and considering how best to meet their needs and how they interact with the business at each stage of each journey they embark upon. The newly designed journey is enabled by the second component, automation and analytics. These are used to anticipate customer demands, shorten waiting times, personalize experiences, and automate simpler customer interactions (a small auto claim, for example), while significantly reducing costs and complexity for carriers. A rapid launch of the redesigned journey is then ensured by the third component, agile working methods, which are deployed across the business, not just in IT. All these

components need to be addressed to improve the underlying value levers of the insurer's business model.

“We’ve changed from knowing everything upfront to trying and testing. Where we used to have everything ready and done before we put it into action, now we can put it into action and learn on the way.”

— David Stachon, CEO of German direct insurer CosmosDirekt

The outcome is threefold: higher customer satisfaction, greater efficiency, and greater effectiveness. Our work suggests that in a claims journey for auto insurance, for example, digitization can raise customer satisfaction by between 10 and 15 points, improve claims adjustment expenses by as much as 30 percent, and increase the accuracy of payments—by cutting down on fraud, for example—by around 4 percentage

points. (Exhibit 1 explains what underpins these figures.) In the past, trying to pull off this hat trick seemed an impossible task, but not today. As Oliver Bäte, CEO of Allianz, said in a speech recently: “We can meet customer expectations that were too expensive in the past. We can customize and individualize things and we can make them more flexible. Flexibility used to be the opposite of efficiency, and that is the paradigm that is disappearing because you can offer a very efficient solution at very low cost.”

The fundamentals of a redesign

Before considering the process for redesigning customer journeys, companies need to take on board the fundamental elements that support it: customer empathy, the marriage of form and function, an iterative approach, and agile, cross-functional teams.

Customer empathy. Good design is based on an understanding not only of what customers say they want, but of what might go unimagined if they are bound by the present. Henry Ford put it like this: “If I had asked people what they wanted, they would have said faster horses.” What they really wanted, of course, was something that was not just faster but more comfortable and capable too.

It is customer empathy that enables digital companies to move beyond incremental, me-too improvements to drive step-changes in customer experiences—perhaps mapping the progress of an incoming tow truck to relieve customer

anxiety after a car accident. The success of many new, digital insurance companies lies not so much in the digital tools they deploy but in the experience those tools enable: a faster, more transparent, and more intuitive approach to shopping for and servicing insurance.

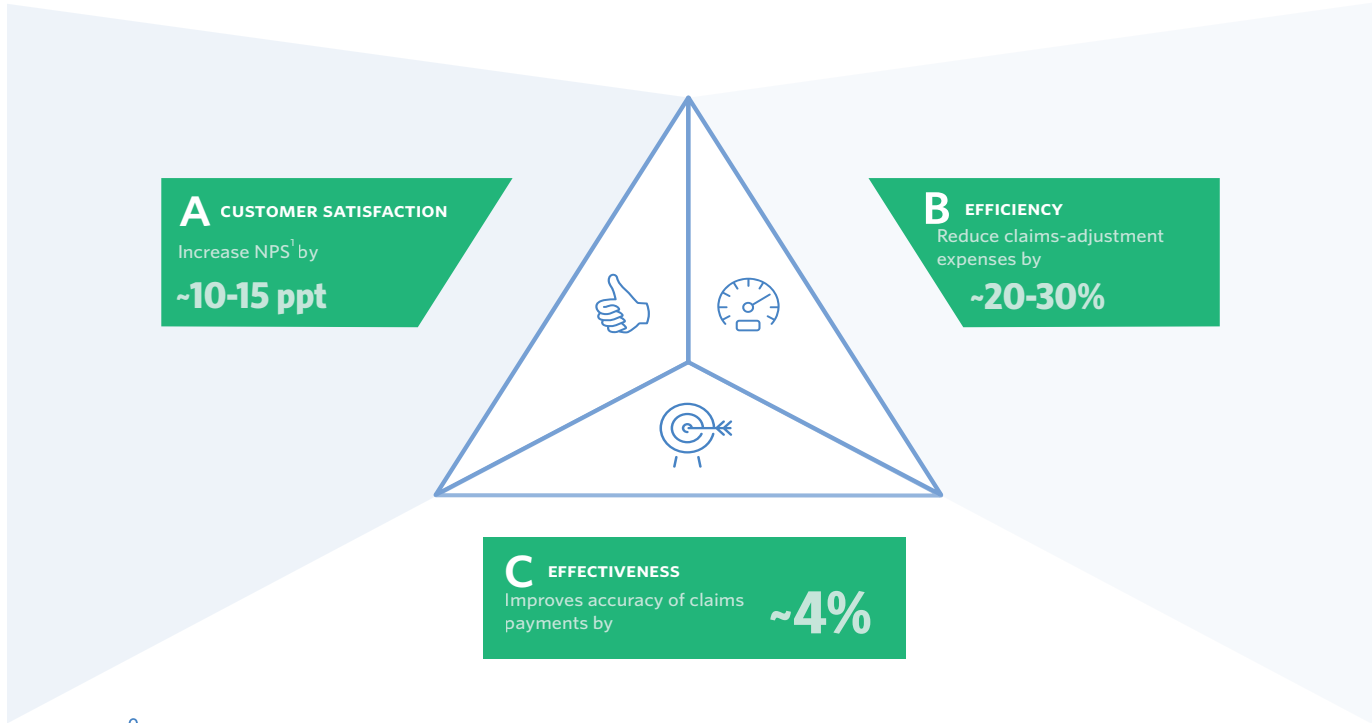
The marriage of form and function.

Good design must also marry form (the customer experience) with function (the value to the business). The design process needs continually to check that both are being met. Reducing time spent on the phone for simple sales and service transactions is an example of where customer and business interests meet in a marriage of form and function.

A typical large auto insurer could more than double profitability over 5 years by harnessing the power of digital.

An iterative approach. In a digital era, capturing value demands an iterative, speedy development of processes and services to keep pace with changing technology and customer expectations. It is important that insurers feel comfortable with the idea of testing products and

Effect of digitization on customer satisfaction, efficiency and effectiveness for an auto insurance claim



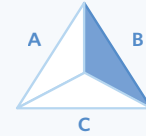
Higher customer satisfaction



¹Net promoter score measures the loyalty between a company and its customers



Greater efficiency



MOVE FROM: High costs and low scalability

- <10% of customers report claims online and their data has been entered into the insurer's systems manually by a claims handler

NOTIFICATION OF LOSS



CLAIM MANAGEMENT



LOSS ASSESSMENT/REPAIR



CLAIMS SETTLEMENT



- 60% of claims reported online by customers and agents with automatic feed into insurer's systems

TO: 20-30% loss-adjusted expenses reduction

- 40% of cases require on-site appraisal of ~2 hours
- 20% of calls to call center are for status requests

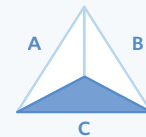
- 30% of claims use digital tool for remote damage assessment or appointment selection
- 50% drop in status request calls owing to use of status messages

- 100% of payments triggered manually

- 50% of loss payments triggered and executed automatically



Greater effectiveness



MOVE FROM: High costs and low scalability

- 15% of high-severity cases detected within 10 days
- Straight-through processing reserved for glass claims only
- <5% of cases steered into partner network
- Fraud analysis conducted sporadically at specific touch-points

NOTIFICATION OF LOSS



CLAIM MANAGEMENT



LOSS ASSESSMENT/REPAIR



CLAIMS SETTLEMENT



- 65% of high-severity cases detected within 10 days
- 50% of claims automatically routed into target process
- >50% of cases steered into partner network
- Continuous fraud monitoring

TO: Reduction in claims payment of up to ~4%

experiences with customers as they are developed—rather than waiting until they are complete—in order to obtain immediate feedback and ensure the solution delivered is the one customers want. The aim is to bring a prototype, known in venture capital and start-up jargon as a “minimum viable product” (MVP), to market in months rather than years. The MVP is then refined in a series

of tests with users. It is easy to imagine the Swiss army knife being developed in this way—first the simple blade, then a bottle opener, then scissors and file, and eventually an entire suite of tools.

David Stachon, CEO of German direct insurer CosmosDirekt, explains how the test-and-learn approach speeds progress. “We’ve changed from knowing

Digital distribution and claims in P&C

Lemonade, a New York-based start-up that offers insurance for renters, uses a conversational chatbot powered by artificial intelligence to recreate the experience of texting or messaging with an agent to deliver tailored sales recommendations, followed by instantly issued policies. When a claim occurs, the same chatbot is used for first notice of loss and damage assessment; in some cases it will issue payment in under three seconds. Lemonade aims to use digital technology to improve the customer experience and keep its expense ratio down, passing savings on to customers.

Digital distribution in individual life

Haven Life, a direct-to-consumer life insurer started by MassMutual, uses digital technology to offer medically underwritten term life insurance quickly and at low cost. By tapping into other data sources such as prescription history and motor vehicle records, Haven can issue policies without asking customers to undergo unpleasant, lengthy, and costly (for the carrier) medical tests. And by going directly to the consumer it eliminates the distribution expenses associated with agents—often more than 100 percent of the first year’s premium.

everything upfront to trying and testing. Where we used to have everything ready and done before we put it into action, now we can put it into action and learn on the way. That's a huge paradigm shift." The methodology also avoids costly mistakes, as wrong moves can be quickly corrected with early feedback. But insurers will need to embrace failures in order to learn from them, and recognize that the journey is never really complete: it undergoes constant iteration.

Agile, cross-functional teams. In a rapidly changing environment, insurers' various functions—risk, underwriting, claims, marketing, and sales—offer deep expertise but are often too rigidly siloed to respond quickly. Moreover, in a functional set-up, no one owns the full customer experience. It can take several weeks and many working sessions to create a complete view of it, and still not everyone will be committed to its improvement given the various performance metrics used. The solution is cross-functional teams whose common goal is to remove customer pain points and capture the business opportunity.

Adopting an agile approach, these teams work in "sprints" to meet specific, agreed development targets week by week, incorporate regular user feedback, and hold daily meetings to ensure progress is transparent and deadlines are met. Regular review meetings with other stakeholders from affected business functions help identify areas for enhancement. In this arrangement, IT

and the business work closely to splice business and customer. IT's role thus becomes strategic—it is no longer a support function. (See "IT moves center stage" for more on this topic.)

The approach

These fundamentals are all reflected in the redesign of a customer journey. There are three stages in the redesign: define, design, and deliver (Exhibit 2). The first stage, define, is about understanding what customers want and why, and how the business will benefit from meeting their expectations. For simple claims, for example, customers might seek assurance that their case is being fast-tracked without their having to call the adjuster to check progress; the adjuster saves time as a result. These customer needs are uncovered by mapping current customer journeys and identifying opportunities and pain points, an exercise that can be achieved within three to five weeks through ethnographic market research and close customer contact. A company might not choose to fix all the opportunities and pain points identified, but it does need to address the highest priorities. This stage forms the foundation of cross-functional collaboration that will mark the new way of working.

Next comes the design phase. For the time being, it ignores constraints such as immature technology or regulatory limitations and instead focuses exclusively on the customer need and the business objective ("maximum aspirational

Capturing value from the core by redesigning customer journeys

Define, design, and deliver the minimum viable product within six months



proposition”). To extend the claims example, the team might decide that a lightweight chatbot based on artificial intelligence is the best way to accelerate customer response times. It would test the concept with customers, refining it several times, and then break it apart into a set of discrete features. Each is assessed for feasibility (business, technical, and regulatory) in order to prioritize those features that can be developed immediately (the MVP). In this case, instead of a chatbot, adjustors might first use a texting platform, augmented by automatically generated status

updates, while the tech team works on the advanced analytics-driven chatbot for subsequent releases.

In the third phase, deliver, the cross-functional team embarks upon one- to two-week development sprints with a commitment to release the MVP to market within three to four months. This requires close coordination between business and IT, often using an agile development method that requires a strong product “owner” who is empowered to make decisions about the scope and form of the solution, a “scrum master” who leads

How current customer journeys could be redesigned

FROM

TO



AUTO INSURANCE CLAIMS

- | | | |
|---|---|---|
| ■ Customer waits on hold to report claim via phone | → | ■ Instant claims reporting through responsive mobile site or carrier app |
| ■ Lengthy first notice of loss call to give information on claim | → | ■ Automatic data collection based on a simple Q&A, photo upload, and sensors |
| ■ No transparency on status of claim | → | ■ Proactive updates sent via email, SMS, and online messengers (e.g., WhatsApp, Facebook) |
| ■ Communication with human adjuster to check for status and share additional information via phone and email during normal business hours | → | ■ Communication with chatbot via digital channels |
| ■ Payments triggered manually, and often paid via check | → | ■ Payments triggered automatically and deposited directly into customer's bank account |



LIFE INSURANCE PURCHASING

- | | | |
|--|---|---|
| ■ Initiated by a cold call from an agent | → | ■ Triggered direct-to-consumer based on customer's life event |
| ■ Confusing set of complex policy variations | → | ■ Simple, tailored set of product options based on customer's unique needs |
| ■ Blood- and urine-based underwriting | → | ■ Fluids-free underwriting, informed by public and private databases (accessed with customer's consent) |
| ■ Lengthy underwriting duration | → | ■ Instant underwriting, quoting and policy issuance |



HOMEOWNERS' INSURANCE RENEWAL

- | | | |
|--|---|---|
| ■ Paper-based renewal notification at time of renewal | → | ■ Proactive communication well ahead of renewal |
| ■ No explanation for change in premium | → | ■ Simple explanation of changes to policy and additional cross-sell options |
| ■ Phone call required to learn more or request complex changes | → | ■ Interactive, web-based process to make changes to coverage (all pre-approved) |
| ■ Manual renewal submission with a new underwriting process | → | ■ Automatic and instant renewal |

the charge for a new way of working, a team of four to six full-stack developers, experience and visual designers, and representatives from relevant business functions. Once released, often to a limited set of end-users at first, customer feedback is gathered. This, along with confirmation that the underlying technology is stable, is used to develop version 2.0 almost immediately with the next set of prioritized features.

Scaling up

Almost every customer- or agent-facing touchpoint is part of a journey that could be digitized to some degree to make it more satisfying for customers, more efficient, and more effective. Exhibit 3 describes a handful of journeys ripe for redesign, with examples of how the customer experience could be transformed.

The question thus becomes, which customer journeys should be tackled first? The choice will differ by organization, but it is important to prioritize journeys that will demonstrate early impact and so gather enthusiasm and support for more investment.

Generally, the choice and sequencing are guided by the value likely to be captured and the feasibility: is the IT architecture in place, and are there enough people with the right capabilities? This will shape the roadmap for the coming months. An

aggressive target would be to redesign 25 to 35 journeys within three years, accelerating the pace of the rollout during that period as the redesign approach improves with experience.

To support the rollout, IT infrastructure often needs upgrading to include modern technology stacks, cloud architecture, automated testing, reusable application program interfaces (APIs), and a flexible middle layer that links customer-facing applications to underlying systems. New hires and new partnerships will also be required to build the necessary skills, and different organizational structures will have to be considered. Some companies choose to set up a separate division to lead digital initiatives, believing they need the distance, space, and a degree of autonomy from the old business in order to flourish.



As technology evolves, so will the extent to which customer journeys are transformed to include an array of products and services. Home insurers, for example, might become part of an ecosystem centered on a mobile app that not only helps home buyers take out insurance, but also values the property, predicts variable costs such as annual energy charges, helps the homeowner catalog possessions against any future claim, offers smart-home devices to monitor fire or flood risks, and, if a problem is detected

while the home owner is away, offers to send out an inspector. The app could even send alerts of pending storms, advise on precautions that might be taken to protect the home, and offer a snow removal or repair service once the danger passes.

Redesigning customer journeys is not therefore simply a way of creating value from insurers' core business today. It also prepares them for the future. The cost savings the process delivers will be essential if insurers are to compete with low-cost digital attackers and invest in innovative products and services. Just as importantly, it equips today's insurers with the means to adapt swiftly and continuously to changing customer needs—whatever the shape of tomorrow's insurance industry. □

Johannes-Tobias Lorenz is a senior partner in McKinsey's Düsseldorf office, **Pradip Patiath** is a senior partner in the Chicago office, and **Ido Segev** is a partner in the Boston office, where **Christopher Morrison** is an associate partner.

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