

Harnessing the Power of Digital in Life Insurance



Financial Services Practice

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Introduction

The digital revolution that has transformed the way consumers buy music, hail taxis and communicate with each other is catching up to the life insurance industry. In the next few years, digital tools such as big data and advanced analytics will enable a wide range of new business applications by collecting, analyzing and operationalizing vast amounts of data for improved marketing, underwriting and customer retention. Leading digital carriers will go further by digitally enabling their sales forces, interacting with consumers and intermediaries in real-time omnichannel environments and offering remote and robo-advice at any hour on any platform.

Advances in digital tools and services come at a moment when the life insurance industry is facing fundamental challenges. Market penetration has been declining for the past 30 years and real growth between 2005 and 2015 has been negative. Sales of new policies have fallen from 17 million per year in the 1980s to around 10 million today. At the same time, wealth managers, banks and brokers are cutting into the mass affluent and affluent segments that represent about 90 percent of the industry's profit pool.

In the face of these headwinds, digitization offers agile and innovative carriers real opportunities to grow. About two-thirds of consumers across age and income brackets say they are open to receiving virtual advice, and more than one-third would prefer to conduct the entire quote-to-buy process online. In addi-

tion, new opportunities are emerging that exploit gaps in traditional financial advisory services. More than one-third of consumers, for instance, say their financial advisors are unable to offer holistic advice on long-term protection and wealth accumulation.

To take advantage of these opportunities, life insurers will need to define a cohesive digital strategy and transformation plan. A multi-year roadmap allows leaders to build digital capabilities in the right sequence, refine organizational structure to accelerate innovation, and embed the behavioral and cultural changes needed to sustain growth.

Digital opportunities across the business system

Insurance carriers understand the need to embrace and invest in digital tools to

reinvent their business models for the twenty-first century. Compared to other industries, life insurers lag behind in embracing digitization, in part because views diverge on the pace of change and the threat of digital disruption (Exhibit 1).

Regardless of how fast the industry moves, opportunities to harness the power of digital exist across the insurance business system (Exhibit 2). Long-term success will require a systematic, step-by-step approach. Winning carriers will spend the next two or three years creating lasting competitive advantages by digitally transforming each step of the business system:

Carriers can increase
the number of touchpoints with
customers by coupling traditional
protection products with broader
advice on financial wellness and
physical well-being.

- **Product development.** Insurers can use digital platforms and tools to create and distribute simplified, digital-native products, raise consumer awareness and knowledge and, importantly, serve the middle market in cost-effective ways. Carriers can increase the number of touchpoints with customers by coupling traditional protection products with broader advice on financial wellness and physical well-being. Embedding products into a broader ecosystem of partners who can add value beyond protection will be key to winning new

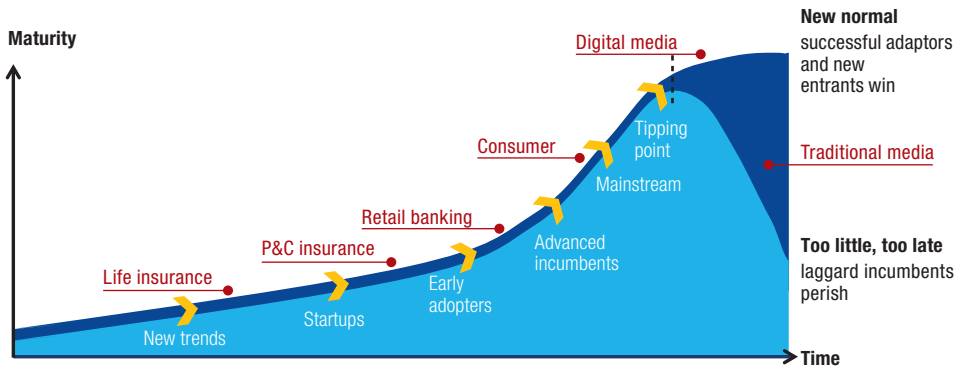
customers. Carriers will also create more personalized and relevant product propositions. A few innovators are already experimenting with on-demand coverages that allow consumers to buy insurance for specific event- and location-based risks.

- **Consideration and evaluation (marketing, distribution and advice).** By reaching the growing ranks of consumers who prefer to shop online before—or instead of—speaking to agents, next-generation digital marketing platforms have the potential to boost new sales by 3 to 5 percent. In China, online insurers are leveraging analytics and digital marketing techniques to attract millions of prospects. A few U.S. carriers are building “advisors of the future” equipped with digital tools that allow them to deliver advice seamlessly and raise sales force productivity by 5 to 20 percent. Other carriers are setting up sophisticated remote advice functions that enable them to deliver high-quality advice over the phone or online that rivals what brick-and-mortar agencies can provide.

- **Purchase (underwriting and new business issuance).** Consumers consistently rank underwriting complexity and delays among their top concerns. Digitization can address these issues by allowing carriers to draw on a wide range of structured and unstructured data to improve risk selection, dramatically simplify and expedite the underwriting process and automate customer onboarding end-to-end. Together, these advances can cut cycle times by 50 to 70 percent and reduce administrative expenses by 20 to 30 percent.

Exhibit 1

Life insurance lags other sectors in digital maturity



Digital insurance is accelerating

65% of traditional European insurers plan to professionalize their online marketing (e.g., purchase of keywords) and 45% aim to improve their social media presence

20% of U.S. direct channel quotes for direct carriers are mobile quotes

65% of the physical-channel-centric insurers plan to switch to a customer-centric model

93% of digital leaders rate digital as very important for their organization in the next three years

75% of traditional European insurers plan to install multi-access training programs for their physical sales channel

Source: McKinsey Insurance Multi-Access Benchmark

Exhibit 2

Digitization can deliver significant value along the entire life insurance business system

New product development	Initial consideration	Active evaluation	Purchase	Use	Ongoing engagement
Develop new digital products or business units that target new segments or channels	Next-generation digital marketing to develop high-quality prospects → potential 3-5% increase in new sales	Transform the digital shopping experience Digitally enable the “advisor of the future” → potential 3-7% improvement in sales force productivity Transform pricing through advanced analytics Create “on-demand” personalized products	Digitize end-to-end customer onboarding processes → potential 20-30% FTE cost reduction Create a frictionless underwriting process → potential 30-40% FTE cost reduction Develop seamless enrollment process through robust institutional partner connectivity	Digitize end-to-end claims → potential 15-20% FTE cost reduction Build omnichannel servicing capability → potential 15-25% FTE cost reduction Accelerate data-driven claims management → potential 1-3 points improvement in judgment-based claims accuracy	Build “next-best product to buy” cross-sell capability → potential 15-25% increase in cross-sell rates Build predictive analytics capability for lapse reduction → potential 20-30% reduction in lapse rates for “at risk” customers (accounting for ~70% of total lapses)

Source: McKinsey & Company

- **Usage (servicing and claims).** Digitizing the end-to-end claims process has the potential to reduce costs by 15 to 20 percent, as does the creation of omnichannel servicing capabilities. Data-driven claims management can significantly improve payout accuracy, overall efficiency and customer experience.
- **Ongoing engagement.** Leading carriers are using new data sources and advanced analytics to identify the next-best product for each customer, improving cross-sell rates by 15 to 25 percent. Better predictive analytics are helping carriers cut lapse rates by 20 to 30 percent among the “at-risk” customers who account for about 70 percent of lapses. In developed markets where new business is nearly flat, reducing lapse rates and raising cross-selling rates represent two of the most significant opportunities for improving performance in the short to medium term. Forward-looking carriers will translate their learnings and insights into building entirely new engagement models that leverage value-added service and extensive third-party partnerships to create ongoing dialogues with their customers.

The Five Building Blocks of a Digital Transformation

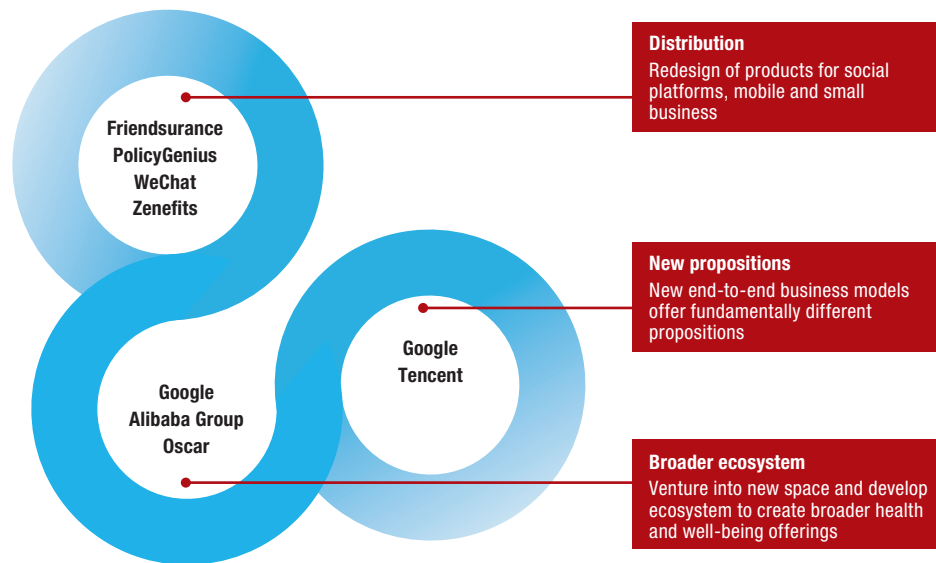
While life insurers have immense digital opportunities, the cost of inaction is equally high. Parts of the value chain, such as recordkeeping and policy administration, have either been commoditized or are dragging down valuations. Unless incumbents embrace digitization holistically and transform their business models, they will find themselves systematically disintermediated (Exhibit 3, page 8).

However, developing core digital capabilities can be a multi-year process. Insurers need to begin now to take a structured approach and organize their digital transformations around five core building blocks (Exhibit 4, page 8):

- **Digital strategy.** The organization must align on the long-term vision for overhauling operations and generating new sources of value, and agree on a clear set of priorities. Senior management must quantify the value at stake and prioritize actions over three horizons: digitizing the existing business; building digital capabilities that can differentiate their business proposition; and pursuing disruptive digital innovation.
- **Digital value capture.** There are at least three areas where insurers can capture digital value. *Building an integrated digital front office* is a natural starting point for many carriers. Concrete actions can range from digitally enabling an existing agency sales force to building a remote advice center that engages consumers across multiple channels and predicts their needs. *Digitizing operations and customer experiences* is another way carriers can capture value within their existing business. Most successful carriers will focus on three to five high-volume customer journeys and systematically digitize the experience on the front and back ends. The third approach is *creating an environment where parts of the organization can experiment with new business models*. Examples include setting up a completely new business outside of the core to experiment with new types of products, user experiences, and underwriting and servicing models; or creating an ecosystem of digital partnerships and businesses to connect with millions of potential customers that are fully at home online.
- **Foundational digital capabilities.** Insurers will need to invest in the core technical competencies that support digitization and disruptive innovation, such as flexible and modular IT architecture, deep data access and advanced analytics, and user-centric experience design. Leading carriers will

Exhibit 3

Disruptors are targeting the insurance value chain



Digital native non-traditional competitors are focused on disintermediating life insurers in areas where value is created (e.g., customer relationships and risk selection and management)

Source: McKinsey & Company

Exhibit 4

Five building blocks of a digital transformation

	1 Digital strategy	Identify threats and opportunities, quantify value at stake and prioritize	
	2 Digital value capture	Transform core business and develop new ones	<ul style="list-style-type: none"> • Digital front office • Digital operations and customer experience • Digital innovation
	3 Foundational digital capabilities	Build critical capabilities required to rapidly scale digital	<ul style="list-style-type: none"> • Advanced analytics • Next-generation IT • Digitally enabled operations • Customer-centricity
	4 Digital culture, talent and organization	Transition to a digital way of working	<ul style="list-style-type: none"> • Structure and leadership • Agile operating model and culture • Talent and skills
	5 Digital integration roadmap	Build an integrated roadmap with clear prioritization criteria and sufficient flexibility	

Source: McKinsey & Company

closely align their capability development with existing opportunities in their core businesses to ensure a clear revenue upside. For example, they will build advanced analytics capabilities by evaluating concrete use cases across the full business system and prioritize them based on opportunities and value-creation potential.

- **Digital culture, talent and organization.** Life insurance carriers need to shift from a channel-centric design process that prioritizes the needs of their sales forces to a customer-centric design approach. They must build capabilities that allow them to incorporate consumer insights directly into product

and user experience design, adopt a test-and-learn approach based on market feedback, improve cross-functional collaboration, and adjust the formal organization structure to reflect the importance of digitization.

- **Integrated digital roadmap.** Lastly, insurers need to create an integrated transformation roadmap that addresses digital strategy and value-capture through digitization and innovation. They will need to invest in foundational capabilities to transform culture, talent and organization. Each roadmap will vary based on the organization's digital maturity and its market and product focus.

Building an integrated digital front office across three horizons

Leading life insurers are building digital front offices by making investments across three horizons

Horizon 1: Develop and implement digital sales tools and processes to shift from phone and paper to electronic sales and service. Benefits include significant increases in sales effectiveness, a dramatically improved customer experience and a richer, more holistic understanding of the customer.

Horizon 2: Create robo/remote advisory models, integrated lead management, a unified view of customers across segments and self-service capabilities. Benefits for customers include self-service for basic needs and high-quality advice whenever and wherever they need it.

Horizon 3: Develop new customer engagement models for self-directed education, planning and wellness programs. Hybrid solutions driven by predictive analytics linked to life stage and big data will allow mass customization of products, dynamic sales materials and product innovations.

Four Models for Digital Transformation

Digital strategies most frequently fall short when companies lack a clear vision of the sources of value. McKinsey sees four models that carriers can use to outperform (Exhibit 5):

- Efficiency leader:** For some carriers, the best approach will be one that aims for near-term gains in efficiency, cost-cutting and tactical impact. A U.S.-based life insurance and retirement company took this route by digitizing a number of customer journeys and processes to drive profit. For example, it improved each step of the customer experience in retirement accounts, from initial rollover discussions to account opening, investment guidance and fund transfer. Costs per funded application fell by two-thirds, and capture rates of existing customers rose by more than 30 percent. A global life insurer fundamentally redesigned a few core processes using a customer-back design-centered approach. The approach included customer immersion facilitated by user-experience designers, detailed leakage analyses with quantification of cost and revenue upsides, definition of current and target state from initial consideration to claims payout and rapid development of a new prototype using an agile approach.
- Revenue-focused multichannel leader:** Some carriers will use digital tools and processes to enable the sales

Exhibit 5

Four potential digital transformation approaches

Efficiency leader	Revenue-focused multichannel leader	Self-disruptor	Holistic transformer (portfolio approach)
Strategically digitize high-value customer journeys and business processes to drive cost efficiency Early cost savings generate institutional buy-in and create financial leverage for subsequent digital initiatives	Transform customer experience and productivity by digitally enabling field sales forces, building digital marketing capabilities and boosting overall funnel conversion Over time, build true omnichannel capability with seamless connectivity across channels	Pursue disruptive innovation outside of core businesses Expand and scale ecosystems Leverage capabilities to transform existing business	Transformation entails simultaneous pursuit of digital initiatives that improve efficiency, drive growth and experiment with disruptive innovation outside existing business models Strong IT foundation to enable digital initiatives
Short- to mid-term returns		Mid- to long-term returns	

force, quickly improving productivity and boosting overall channel effectiveness over time. A European-based life insurer used digital tools to transform productivity across a network of 14,000 agents. The results have included sustained growth in productivity of agents and a 30-point improvement in customer experience scores. All of the initiatives were delivered through an iPad app, enabling managers to digitally manage branch activities and organization health. They now spend less time on administrative tasks and more coaching their teams—and agents connect with more active customers per day, increasing premiums.

- **Self-disruptor:** A few carriers, or attackers from outside the life industry, will create full-fledged digital businesses, including new business acquisition channels and digital capabilities. A

large Chinese financial services company digitized its existing business and launched new digital businesses in adjacent areas. It is now a one-stop supermarket for insurance and wealth management products, from digital payments to lending and insurance.

- **Holistic transformer or portfolio approach:** With the right resources and a long-term view, a few carriers will succeed with end-to-end digital transformations, harnessing a digitally enabled strategy and business model, and making subsequent IT infrastructure transformations. A leading European financial services firm took a full-scale approach that included strategic transformation, operating model digitization and a host of other digital advances in products, advanced analytics, automation and omnichannel customer service.

Making Transformation Happen

To capture the full opportunity from digitization, carriers need to avoid pitfalls and make important shifts in their approach to business transformation. They need to resist the temptation to pursue the latest “shiny object” or go after dozens of digital initiatives in parallel. Instead, they should prioritize and sequence their digital initiatives and adopt an agile way of working to strategically build digital capabilities and rapidly launch them. Most carriers need to more than quadruple their investments in digital and adopt two-speed IT to make sufficient progress without being slowed down by the replacement of legacy systems.

In today's fast-moving market, not every advance can be made within individual functions or using in-house talent alone. Successful carriers will develop strong cross-functional and cross-business-unit collaboration and build an expansive ecosystem of external partners. Sustained commitment from senior management will be essential in order to design a comprehensive digital strategy, build digital capabilities, create a digital culture and execute an integrated digital roadmap. Senior leaders at the most successful carriers are agreeing on a long-term vision and accepting short-term declines in ROE to drive three- to five-year transformations as they make meaningful investments across the value chain.

In the years ahead, those life carriers that embrace digital will be able to deliver profitable growth. They will serve customers from a wider range of income levels and ages, have richer and more frequent interactions with each customer, and know their customer better—including the timing of each milestone in life, from first home purchase to new parenthood, career advances and retirement. Customers will spread the word about fast, personalized service, building trust and brand value, and the leading carriers' reputations will help them attract and retain hard-to-find talent—who will help drive new rounds of innovation.

While the threat of attackers always remains, incumbents who move fast enough in the right directions will create significant and lasting competitive advantages.

Contact

For more information about this report, please contact:

Parker Shi

Senior Partner, New Jersey
parker_shi@mckinsey.com

Ramnath Balasubramanian

Partner, New York
ramnath_balasubramanian@mckinsey.com

Holger Wilms

Associate Partner, Washington, D.C.
holger_wilms@mckinsey.com

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