

Executive summary

Harnessing Innovation in European Insurance

How the region's carriers are responding
to the new imperative to innovate



Nick Mayes
Principal Analyst

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Harnessing Innovation in European Insurance

INTRODUCTION

Europe's major insurance carriers stand on the edge of a new age of disruption in 2017.

Growth in premiums for both life and non-life policies are growing by just 2% in the region, as a result of low interest rates, ongoing economic headwinds and changing customer demands.

Carriers are struggling to engage with millennials who are turning their backs on traditional ownership models and insurance products. They also face growing competition from both traditional players and new digital entrants.

While carriers are looking to become more agile and responsive to changing customer needs and market demands, they are finding themselves hamstrung by decades of legacy platform and process complexity. Regulatory demands on risk capital and data management are a major boardroom preoccupation and are driving a new wave of M&A activity.

Set against this backdrop, it is understandable why the sector has been relatively slow to take full advantage of emerging technology to drive innovation. Europe's 50 largest carriers have been in business for an average of more than 70 years, and adapting the organisation to thrive in the new market environment requires not just technology, but leadership, culture and business model reinvention.

But with seven of Europe's ten largest carriers recruiting new CEOs in the last 18 month, is the pace of change accelerating? This study sets out to explore how European insurance carriers are approaching the challenge of harnessing innovation in their business. Based on interviews with 200 senior CXO-level business and technology decision-makers, this report explores the strategies and approaches that both life and non-life carriers are taking to driving to innovation.

The report also looks at how insurers are restructuring in order to better harness innovation both from within the business and through external suppliers. It also highlights specific examples of innovative projects that carriers have recently undertaken, and looks at what they are trying to achieve through this investment.

The study makes vital and interesting reading for senior decision-makers at European insurance carriers that are looking to better understand the progress their peers are making on the increasingly important topic of driving innovation.

With seven of Europe's ten largest carriers recruiting new CEOs in the last 18 months, is the pace of change accelerating?

KEY FINDINGS



Only one third of European insurers believe themselves to be highly innovative.

However, 70% believe that a failure to innovate will restrict growth or see them fall behind the competition.



84% of insurers have a formalized innovation strategy, with dedicated teams, processes and budgets.

Insurers are no longer just paying lip service to driving innovation, it is something that is being driven at a boardroom level and sits at the heart of the organisation.



Regulation and ageing technology and infrastructure are seen as the biggest barriers to harnessing innovation.

Insurers believe they have the skills and bandwidth to drive innovation, but IT and external factors are stumbling blocks.



60% see improving customer engagement as the primary focus for their innovation strategy.

In an age of stagnating premium growth, carriers are looking for new ways to drive customer loyalty and acquisition.



80% state that they have experienced strong or medium disruption from new competitors.

The insurance sector is starting to see the kind of competitive landscape shake-up already experienced in retail banking.



23% see more effective risk governance as one of the biggest opportunities for their business in the next two years.

it is imperative when harnessing innovation for carriers to safeguard assets and data. Utilising the benefits of new technology needs be balanced against risk.

KEY TRENDS

Key trends by carrier type

Non-Life (General) 71% see themselves as highly innovative organisations, and 78% claim that innovation is at the heart of their organisation. Customer engagement improvement is seen as a primary focus area for the innovation strategy by 71% of carriers.

Life & Pensions 88% have experience strong or medium disruption from new competitors; 70% state that their legacy IT landscape is holding back the pace of innovation in their business. More than two thirds plan iterative replacement of legacy applications.

Composite One third of composite carriers look to companies in other sectors to bring innovation into the organisation. 32% state they struggle to find the bandwidth for innovation projects. 84% see cloud platforms as valuable in prototyping new digital services.

Key trends by region

France 60% see new product development as the biggest opportunity for their organisation; 38% see regulation as a primary barrier to harnessing innovation; 55% see predictive analytics as a high priority area for investment.

Germany 43% say that innovation is already a matter of life and death for their business; 85% of carriers claim that innovation is at the heart of their organisation; 65% have formalized strategies to foster innovation; 73% look to internal leaders to drive innovation.

Nordics 68% state that innovation is something that happens at the edge of the organisation; 30% have experienced strong disruption from new competitors; 75% state that the legacy IT landscape is holding back the pace of innovation in their business.

Spain 83% of carriers consider themselves to be highly innovative; the Chief Digital Officer leads innovation at 38% of carriers in the country; 50% engage with small external suppliers to bring innovation into the organisation.

UK 95% have a formalized innovation strategy, with dedicated teams, processes and budgets; 58% believe that failure to innovate will restrict their growth; 43% state that the CEO is primarily responsible for driving innovation.

INNOVATION: CHALLENGES & OPPORTUNITIES

The pressure to innovate has never been greater in the European insurance sector.

It has become increasingly difficult for carriers to drive top line momentum as premium growth stagnates, and competition intensifies.

The M&A activity that has reshaped Europe's carrier landscape over the last five years – driven in part by new risk capital requirements – has slowed down, meaning that insurers are putting a renewed focus on finding new ways to differentiate and grow their businesses.

At the heart of this is digital transformation, leveraging emerging technology to launch new products to customers through multiple channels, while streamlining decades-old processes and building new organizational structures to take full advantage.

This shift is best encapsulated by Thomas Buberl, the CEO at Europe's largest insurer **AXA**, who stated on his appointment in 2016 that "transforming the business for a digital future" should be a greater priority than increasing the size of the franchise through acquisitions. In 2017, the industry is full of examples of ambitious technology-centric transformation programmes playing out, from the **Lloyds Market's** far-reaching 'TOM' initiative, through to the multi-year strategies unveiled at **AXA**, **Allianz** and **Generali**.

But are these examples indicative of wider progress and success, and to what extent is the European insurance market driving real innovation?

This study sets out to understand what digital innovation means to European insurance carriers, review where they are channelling their efforts and investments, and analyse what they are looking to achieve.

Only one third of European insurers consider their organisations to be "highly innovative," with a significant majority (64%) stating that they are followers, rather than leaders.

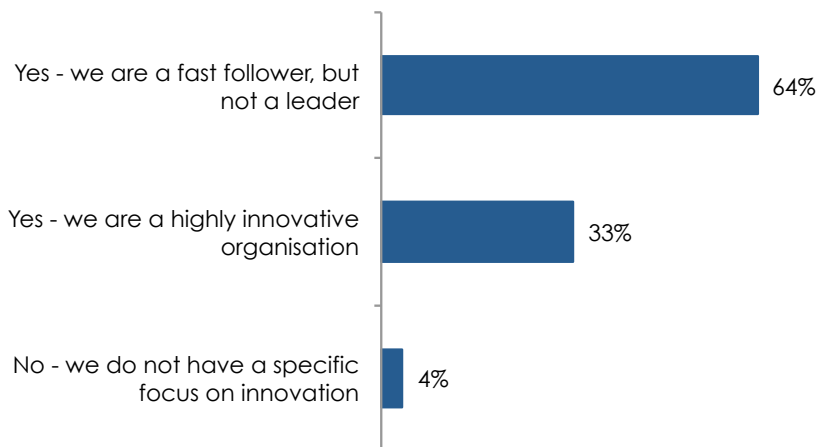


Fig. 1: Do you consider your organisation to be innovative?

The findings are based on interviews with 200 senior business and IT decision-makers at large and medium-sized carriers in both the life and non-life sectors - a more detailed breakdown of the sample is available at the end of this document.

One of the first key questions to set the scene for the rest of the analysis is do European insurance carriers believe themselves to be innovative organisations? Only one third of participants consider their organisations to be “highly innovative,” with a significant majority (64%) stating that they are followers, rather than leaders in driving innovation.

Carriers in the UK were the most bullish in assessing their current level of innovation, with 73% seeing themselves as “leaders,” ahead of the more sanguine insurers in the Nordic region (53%) and France (55%). Smaller carriers also see themselves as more innovative than their large counterparts, with 78% of carriers with between 500-1,000 employees perceiving themselves as highly innovative, versus 57% with more than 1,000 employees. Smaller carriers do not have the same level of legacy and structural constraints that encumber the larger players, and in principle, should be able to innovate with greater speed and agility.

And why is innovation important? For 40% of carriers, failure to innovate will negatively impact their ability to grow the business, while a further 30% believe that it will see them fall behind the competition. Just 20% believe that innovation is not critical to future success, and intriguingly, it is the smaller carriers that are best represented in this group. Almost one third of carriers with between 500-1,000 employees believe that their future success does not depend on innovation, compared to just 7% of insurers with more than 2,000 employees. This suggests that the bigger established players have a much stronger imperative to change in order to keep pace with smaller, more agile competitors.

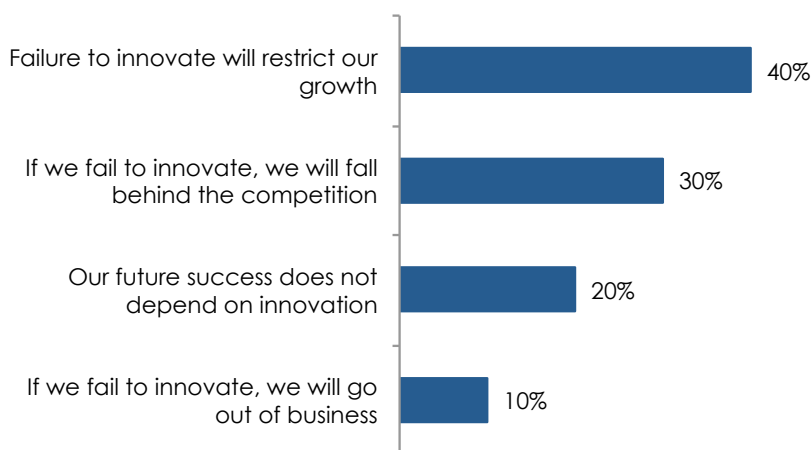


Fig. 2: To what extent do you believe that your future success will depend on your ability to innovate?

HARNESSING INNOVATION

The first part of the study has established that driving innovation is perceived by senior stakeholders at European carriers as becoming important to driving differentiation and competitiveness.

But how can this be achieved?

If innovation is to be driven from the heart of the business, then it needs to be led from the very top. Encouragingly, more than one third of participants said that the CEO is the primary driver of innovation in the business, with a quarter saying that this was the role of a dedicated Chief Innovation Officer,

What are the key sources of new ideas that insurers look to harness as part of their innovation strategies? Do they look outside or inside the organisation, and how important are smaller start-ups in supporting the innovation agenda?

Interestingly, it is the voice of the customer that is most commonly used by senior stakeholders, with 57% of participants stating that they gain insight from client feedback as part of their innovation process. This underlines the importance of effective customer engagement, and in particular, in ensuring that feedback loops are closed and played back to the right stakeholders within the organisation.

More than half (54%) of participants stated that they look to internal leaders to drive innovation, and it has been noticeable how many carriers have been looking to bring in new leadership with strong digital experience – often gained outside of the insurance sector – to drive transformation. Insurance has not experienced the same level of disruption that has been seen in industries such as retail or telecoms during the last decade and many carriers do have limited numbers of seasoned change management executives in their ranks.

Encouragingly, more than one third of participants said that the CEO is the primary driver of innovation in the business

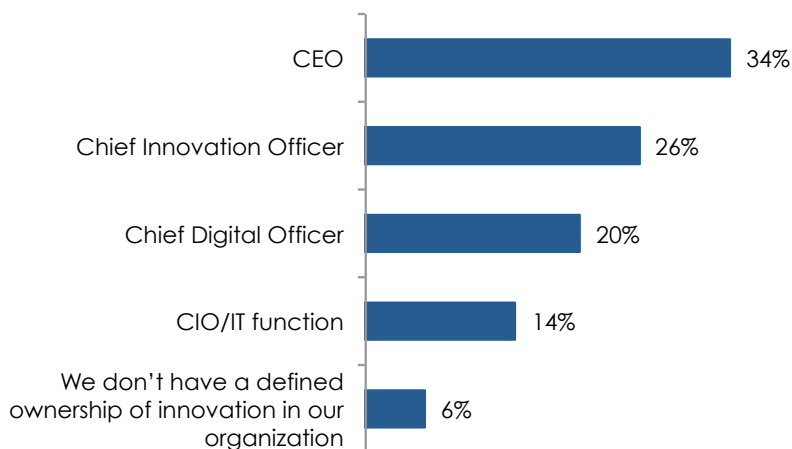


Fig. 3: Which individual in your organisation is primarily responsible for driving innovation in your business?

DIGITAL INNOVATION STRATEGIES

Innovation is not just about technology, but it is a crucial enabler.

The study found that 80% of European carriers believe that digital technology will be crucial to driving innovation and business to their organisation.

Many large insurers have unveiled far-reaching digital transformation programmes that are designed to reengineer the business in order to take better advantage of technology.

Some of this investment will be channelled into small, quick-fire projects aimed at enhancing digital services. Some recent examples include **Aviva's** development of an Alexa "skill" to provide responses on insurance-related voice queries, and **Achmea's** launch of a WhatsApp-based service called 'Homies' to connect and alert people in low-income neighbourhoods when Intelligent burglary sensors are activated.

However, the real heavy lifting looks set take place in transforming the legacy IT landscape. Some 58% state that their legacy environment is holding back the pace of innovation in their business, and out of that group, the main gripe is that it is making their organisation less agile.

This is interesting, as only 9% perceive their legacy applications as a drain on budget that could be used to support innovation. This shows that the business case for legacy applications modernisation is not based on cost but on the need for greater agility – to be able to move at speed in responding to changing client requirements with new products and market offerings. Icelandic insurer **VIS** recently announced that it had replaced a number of legacy sales, policy and claims systems with a standard platform in order to speed up processing times and becoming the carrier in its domestic market with the highest customer satisfaction rating.

Some 58% of European carriers state that their legacy environment is holding back the pace of innovation in their business

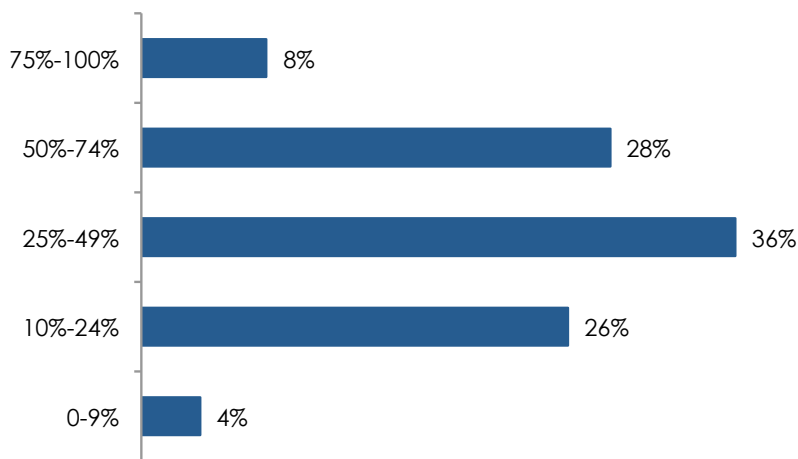


Fig. 4: What percentage of your current business applications landscape would you describe as being fit and able to support your future digital strategy?

CONCLUSIONS



Innovation has become an imperative for European insurance carriers. Changing market conditions and customer demands are forcing insurers in all areas of the market to transform their businesses at speed. Health, life and pensions carriers are struggling for new ways to drive growth and protect margins in the face of low interest rates, while motor insurers face a new era of disruption from the rise of connected and driverless cars.



For carriers built upon several decades of acquisitions and internal system customisation, this presents a huge challenge. However, the findings of this study present a largely positive view of how the industry is responding.



The large majority see innovation as being important to their future competitiveness, and have formalized innovation strategies in place, underpinned by dedicated budgets and processes. These strategies are being led at the highest level and implemented by a combination of lines of business and IT stakeholders.



Innovation investment is largely being channelled into projects designed to grow the business rather than squeezing cost out of the organisation. As a result, topics such as data analytics are being prioritized, while there is a strong appetite for cloud platforms as a way to test and develop new services.



But this will not be an easy transformation, with legacy applications highlighted as a major blocking point. Two thirds of carriers say that less than half of their business applications are able to support the company's innovation agenda.



Regulation is perceived as the main obstacle to innovation, and carriers need to ensure they address hugely important areas such as business assurance and security to ensure that innovation is driven within relevant regulatory controls.



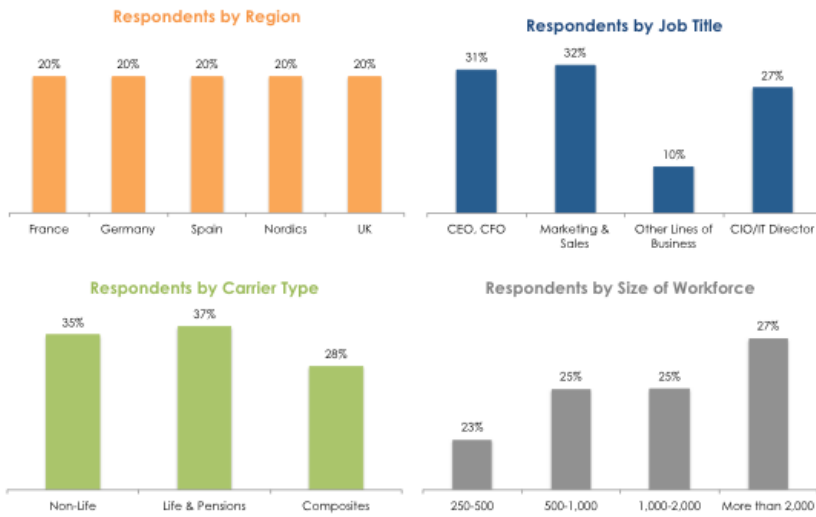
Perhaps one of the most surprising findings is that so many carriers consider themselves to be so far advanced in taking innovation from the edge to the centre of the organisation. There may be a degree of overconfidence here, and this transition will be the key to whether insurers can truly harness innovation across the business.



The majority of carriers acknowledge that driving digitally-enabled innovation is not a journey they can take on their own and they are collaborating with increasingly diverse ecosystems of external partners to ensure success moving forward.

METHODOLOGY

This study is based on interviews with senior business and IT decision-makers with responsibility for driving innovation strategies at 200 large European insurance carriers. The study was completed during the fourth quarter of 2016. Here is a more detailed breakdown of the participants in the study:



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Contact:

Moyra Paterson
Global Marketing Manager | CGI

T: +44 131 527 8623
M: +44 7894 603 908
Email: moyra.paterson@cgi.com

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A CXP GROUP COMPANY

PAC - CXP Group
15 Bowling Green Lane
EC1R 0BD London
United Kingdom

Phone: +44 207 251 2810
Fax: +44 207 490 7335

info-uk@pac-online.com
www.pac-online.com

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