

# DIGITAL INNOVATION: THE CORNERSTONE OF SUSTAINABLE GROWTH IN INSURANCE

Using the Right Tools and Strategies  
Underpins Success





# Table of CONTENTS

I.	Why Digital Innovation Matters in Insurance
II.	Thinking About Digital Strategies
III.	Advantages for the Industry
IV.	Get to Know Insurity

igital innovation matters more than ever in the insurance industry. As customer needs change, as marketplace competition increases, and as distribution channels evolve, the industry must adapt to continue growing. Selecting the right tools and implementing effective strategies are keys to unlocking the numerous advantages of digital innovation. Among those are a flexible platform for continuous innovation, improved customer experiences, and accelerated speed-to-market. These and other advantages combine to offer insurers, brokers, and large managing general agents a solid foundation for sustainable growth.



# WHY DIGITAL INNOVATION MATTERS IN INSURANCE

## Customers' needs are changing—faster

In both personal and commercial lines, customer demographics are evolving. Multiple generations are in the workforce at the same time. In 2019, [Millennials](#) became the largest generation in the United States, surpassing Baby Boomers. Millennials—those born between 1981 and 1996—not only are more diverse than previous U.S. generations, but they also have more education and are considered “digital natives.” The [Pew Research Center](#) reports that, in 2018, 39% of Millennials had a bachelor’s or advanced degree, compared with 25% of Baby Boomers.

These trends mean the insurance industry must reach and engage younger customers and employees who conduct most of their daily interactions in digital environments. Digital technologies are changing lifestyles and the nature of work itself. As a result, more individuals and businesses are encountering new risks and exposures.

The “gig” or “sharing” economy continues to grow. According to the U.S. Census Bureau, [non-employer businesses](#)—those without paid employees but subject to federal taxes—grew by 3.6% in 2017, to 25.7 million establishments. Those non-employer businesses reported aggregate revenues of \$1.23 trillion. The vast majority of such businesses are small, but more than 42,000 non-employer businesses generated sales or revenues exceeding \$1 million in 2017. The incorporated self-employed labor force in the United States has kept a steady growth trajectory since 2014, according to the Bureau of Labor Statistics (see chart).

## Growth in Incorporated Self-employed Labor



Source: Bureau of Labor Statistics, U.S. Department of Labor

For the purpose of managing risk, the sharing economy is a phenomenon that blurs the lines between personal and commercial property and casualty exposures. For example, an individual who operates a ridesharing service typically uses his or her personal automobile to transport passengers. Similarly, a property owner who periodically rents out a home as a source of extra income takes on commercial property and liability exposures. Owners of non-employer businesses who offer professional services incur errors and omissions liability exposures. These trends are creating opportunities for the commercial insurance industry to offer customized protection.

A factor that drives the growth of non-employer businesses is the use of internet technology. Advances in connectivity and mobile technology make it possible for people of all ages to work remotely and productively—as full-time employees or self-employers. Whether risk decision-makers are recent graduates, mid-career professionals, or executives with many years of experience, one common characteristic for all of them is a greater reliance on digital technologies.

At the same time, customers' expectations are ratcheting upward for digital experiences. Individuals have become accustomed to interacting with sophisticated, personalized digital environments in a retail context. Business owners' and executives' experiences as individual consumers are influencing their expectations for commercial service providers. In essence, commercial lines customers today are asking, "Why can't the insurance industry make it convenient to find the information, products, and services I need and at the same time make it easy to transact business?"

Service delivery and customer experiences are critical parts of satisfaction with the insurance industry, according to J.D. Power. However, in its [2018 Large Commercial Insurance Study](#), J.D. Power found most customers in the United States and Canada gave middling marks to their commercial lines insurers. The industry average was 769 on a 1,000-point scale—notably lower than that of other industries. In fact, many customers identified as being “indifferent” to their insurer.

Insurance customers want more choices, personalized solutions, and responsive service, delivered quickly. The good news is that digital innovation can enable the insurance industry to meet, and even exceed, these expectations.

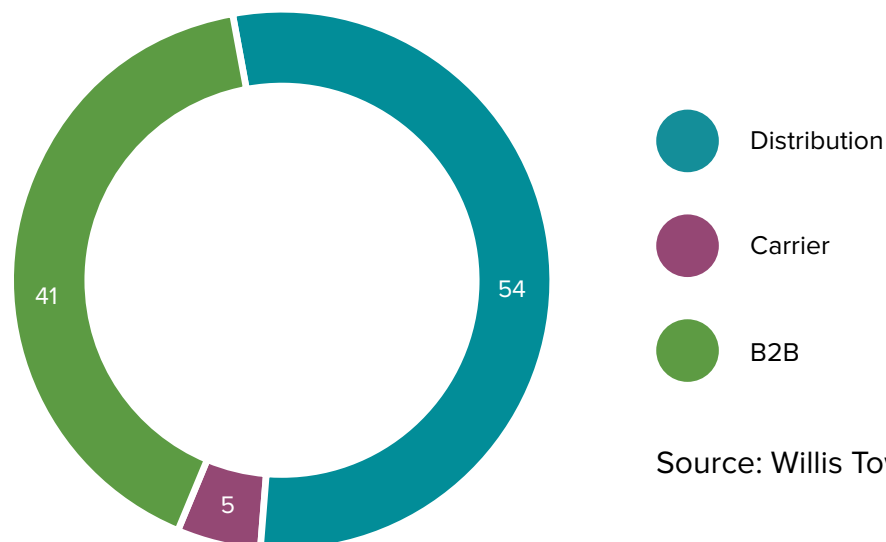
## Distribution channels are increasing

Traditional insurance agents and brokers remain the principal distribution channels for property and casualty insurance, but they are not the only ones. New, digital agencies and direct channels are emerging for certain products and classes of business, particularly in personal lines and policies for small and medium-size enterprises.

Through the first three quarters of 2019, \$4.36 billion has been invested globally in insurtech companies, up 5% from the total invested during all of 2018, according to Willis Towers Watson. The majority of funding is allocated to [digital distribution](#), though 2019 is seeing more investment in business-to-business focused insurtechs (see chart).

## Insurtech Transactions by Category

Percentage of P&C Transactions 2012 - Q3 2019



Source: Willis Towers Watson

The appearance of these [new digital channels](#) in the marketplace means that insurance buyers have more coverage options and streamlined ways to purchase them. Notably, these new entrants promise a different user experience to their customers. For traditional intermediaries, embracing digital innovation is therefore a necessity to attract and retain customers. For insurers and MGAs, digital innovation enables a multichannel distribution strategy optimized for target customer segments and products.

## Competition is rising

The property/casualty industry is well-capitalized and, even though underwriters' appetites ebb and flow, the overall tide is rising. Capacity in most lines of business is ample, prompting many organizations to seek growth opportunities. New entrants in the marketplace are increasing competition for insurance companies, agents and brokers, and MGAs.

Consolidation and rate trends are indicators of the relative competitiveness of the insurance marketplace. Although the first half of 2019 saw strong merger-and-acquisition activity in the global insurance industry, with 222 completed deals, M&A in the second half of the year is expected to slow, according to law firm Clyde & Co LLP in the mid-year update to its [Insurance Growth Report 2019](#). Clyde attributes the forecast slowdown to political and financial uncertainty, particularly in Europe and the United States. Commercial property and casualty insurance pricing has been hardening in several lines, but [Fitch Ratings Inc.](#) believes competitive forces will prevent a true hard market from occurring. Fitch notes that "hard markets are fleeting as underwriting success attracts competition that leads to an erosion of favorable pricing conditions."

As new players and incumbent organizations compete to gain mindshare and market share, digital innovation offers a path to differentiation and competitive advantage. With the right tools and strategies, the insurance industry can improve its product development, enhance offerings through digital applications, and accelerate speed-to-market.



# THINKING ABOUT DIGITAL STRATEGIES

Successful digital strategies today involve approaches that deliver operational and customer-facing efficiencies. Insurance industry organizations should consider these approaches as essential to their digital innovation strategies:

## Incremental and integrative

Integrating new technologies and tools in a deliberate, step-by-step way is a practical and economical approach. Replacing technology infrastructure is complex, costly, and time-consuming. A better way is incremental enhancements that integrate with existing systems. This approach gives organizations the flexibility to adopt technologies as they evolve. Integration is achieved quickly and efficiently through granular RESTful APIs (application programming interfaces that follow representational state transfer principles). What this means is an insurer, broker, or MGA can access a diverse ecosystem of third-party data and systems that enhance the organization's own native digital environment.

For example, an insurer writing property exposures can use RESTful APIs to integrate third-party data on real estate records, building codes, weather archives, and more, in order to compile information to better understand and underwrite those risks, as well as administer and enhance existing products. Similarly, a broker can use RESTful APIs to gather more data to analyze a client's exposures and to bring automation to quoting and binding accounts.

## Low-code/no-code development

A development framework that does not require extensive programming experience is [a game-changer](#) in digital innovation. The [low-code/no-code movement](#) in software and application development, simply defined, lets businesses deploy "citizen developers" with the help of built-in configurability features. By contrast, traditional coding takes time and requires experienced programmers, who often are working on multiple development projects at any given time.

A low-code/no-code framework gives insurance organizations the ability to customize their workflows and put the design and execution of digital applications in the hands of those employees closest to the organizations' customers. This approach delivers tremendous efficiency, ease of implementation, brand differentiation, and—particularly important in a competitive marketplace—speed-to-market.

## Cloud-based platforms

Agility, flexibility, scalability, and security are just a few of the advantages that [cloud-based information technology architecture](#) offers. It's no wonder that cloud use in the insurance industry has tripled in the past three years, according to [Novarica](#).

The cloud frees insurance organizations to focus on their business strategies, rather than investing resources in maintaining and upgrading their IT infrastructure.

Not only do cloud-based platforms save time and money, but they also support agile operations. No longer do organizations need to retool onsite systems each time they want to introduce something new. Instead, they can deploy microservices, which operate independently between front-end and back-end systems, to quickly adapt and revise products, without having to change their technology stack. For example, microservices enable insurance organizations to divide underwriting, rating, billing, and other functions into individual services, which facilitates greater customization and scalability. The cloud lets insurance organizations plan for future growth and innovation, knowing their IT infrastructure can respond to changes ahead.

### III.

## ADVANTAGES FOR THE INDUSTRY

Digital innovation gives the insurance industry numerous advantages in both the short term and long term. These include:

### Better customer experiences

Customers in all industries can be demanding, but often what they seek from their insurance providers today is simple, time-saving products and services. This encompasses the user experience that insurers provide to their agents and brokers, too. From mobile apps to customer portals, digital innovation gives users flexibility and convenience, enabling insurance organizations to deliver better, differentiated experiences.

### Enhanced offerings

Digital innovation lets the insurance industry gather and analyze data to improve their products and services. Insurance providers can take data supplied by customers as well as third-party sources and [transform it into insights](#) through analysis. These insights, in turn, can inform risk decision-making, product design, and commitment of capital.



## More responsive service

When an organization can spend less time focusing on its IT infrastructure, it can devote more attention to running its core business. For insurance organizations, digital innovation translates into delivering more responsive service, faster claims handling, and quicker underwriting processes.

## Efficiency gains

Low-code/no-code development frameworks and APIs can bring efficiencies to workflows both internally as well as those involving customers. Digital innovation enables insurance organizations to attain and sustain significant improvements in efficiency. Efficient organizations also can be more agile and adapt to changing market conditions, emerging risks, and growth opportunities.

## Ability to compete for talent

The insurance industry is facing a looming talent shortage. With each passing year, the industry must compete with other sectors for talent with digital skills. Insurers, brokers, and MGAs that embrace digital platforms and build cultures based on innovation will be better able to attract and retain employees. Digitally savvy employees will be critical resources who can help the industry create and deliver distinctive products and services into the future.

Selecting the right tools and strategies enables insurance organizations to derive maximum benefits of digital innovation. Platforms that offer agility, flexibility, and scalability have proven effective in delivering efficiency as well as exceptional customer experiences. These are the cornerstone in the insurance industry's quest to build and sustain growth.



## GET TO KNOW INSURITY

Insurity makes technology simplify insurance. Digital innovation that enables our clients to succeed is what drives us. With more than 30 years' experience in insurance technology, we are the leading provider of cloud-based solutions and data analytics for the world's largest insurers, brokers, and MGAs. Insurity's approach is defined by:



### Speed To Value

Our modern, API-based architecture facilitates quick, seamless implementations. Insurity's proven solutions enable our clients to respond to market changes quickly and efficiently through easy configuration.



### Industry Experience

Our team of insurance-trained technology experts has a deep understanding of the insurance business and how to leverage technology to add value.



### Cloud Leadership

With the market's most advanced cloud operations, our highly secure and reliable cloud-based solutions allow our clients to focus on their business—not their technology infrastructure.

For these reasons and with our exceptional team of implementation and support professionals, Insurity is trusted by 15 of the top 25 property/casualty carriers in the US. We are privileged to serve users worldwide and have more cloud-based deployments than any other core system provider.

## Insurity by the numbers



Come learn how Insurity can help your organization derive the benefits of digital innovation. For more information, please visit [www.insurity.com](http://www.insurity.com) or contact +1 866 476 2606.



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866.476.2606