Consumerization and the digital enterprise
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Consumerization is the fundamental shift from a product or service offering to one designed and developed based on consumer preferences and demands.

Insurance is one of many industries that are becoming increasingly digital – operating in an integrated digital space that connects business processes and systems with tech-savvy customers who have high expectations and demands. This digital enterprise (built on adopting social, mobile, analytics and cloud, or SMAC) is available in the cloud, through mobile channels. It is driven by social engagement and powered by big data analytics.

In findings from EY’s Global Insurance Digital Survey, we noted how new digital technologies are irrevocably changing the way consumers engage and interact with insurers. Enriching the customer experience and regaining more direct control of the customer relationship were cited as the two biggest drivers of digital strategies. Yet, while many companies have high digital ambitions, there is a significant gap between investment levels and transformational progress.

In this paper, we explore the importance of making the digital agenda a priority and why insurance companies have not realized the full benefits of investing in a digital enterprise. Future insurance strategies must focus on solution portfolios to connect the “what” (underwriting, claims and compliance) to the “how” (managing customer risk). Innovative mobile, social and big data applications will create differentiating customer experiences while reducing costs, improving efficiency and driving product innovation.
Compelling reasons to embrace digital capabilities
To adapt to the new digital landscape and keep pace with competitors, insurers need to identify which initiatives will deliver the most upside potential. The vision must build analytics capabilities simultaneously with digital capabilities to unlock the value in data and customer insight.

Shifting from traditional insurance practices, such as selling directly to customers rather than primarily through agents and brokers, will not be easy. As shown in figure 1, insurers will need to adjust their sales, product and marketing strategies to be more personalized and user-driven, since the future is all about retention through improved customer experience.

Figure 1: The shift from traditional insurance to consumerized insurance

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<tr>
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<th>Traditional insurance</th>
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<tr>
<td>Sales strategy</td>
<td>Sales through agents and executives</td>
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<td>Static and complex</td>
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<td>Feature set</td>
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<td>Consumer-led marketing and viral strategies</td>
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<td>Support centers</td>
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The omni-channel experience
Insurance companies and customers have different needs and expectations relating to marketing and sales, product innovation, distribution channels and the overall customer experience (as shown in figure 2). The enterprise relies on customer profiling and business intelligence to target products and pricing that will provide the best value to retain the relationship. The customer, in turn, demands self-service channels (social and mobile enhanced) that are convenient and easily accessible. Insurers have the opportunity to attract and retain customers if they are able to offer an omni-channel experience — a platform of consistency in services across multiple channels.

Figure 2: Drivers and enablers of consumerization

**Enterprise**
- Unified view of the customer
- Customer profiling
- Business intelligence
- Product configurators
- Gamification
- Collaboration

**Customer**
- Social- and mobile-enabled
- Enhanced experience
- Self-service options
- Demand convenience

**Digital**
- Social media sites

**Consumerization**
- Personalized customer experience
- Targeted marketing and sales
- Omni-channel

**Product innovation**
Getting it right the first time
SMAC is the digital enterprise enabler that empowers insurers to operate their businesses and engage with their customers (see figure 3). The approach is unfolded into the bigger digital strategy of an organization that connotes deeper customer interactions. This means more personalized, customized offerings, data-driven insights and decision-making, supported by processes and operating models that are more agile in adapting to changes in the organization’s environment.

Through SMAC, the right information is available at the right time. Thus, individuals can make the right decision the first time, and internal and external stakeholders are empowered to effectively collaborate.

An SMAC-enabled digital enterprise is not fragmented or in a silo. It presents a way for insurers to engage with their customers through marketing and customer-focused efforts, such as mobile apps, e-commerce, social media, site and search engine optimization and advertising. Engagement extends to customer intelligence, new product/market development, sales and service optimization, enterprise technology architecture and processes, as well as innovation and governance.

While each of the four SMAC components are capable enablers independently, integrating them as a stack can enable insurers to better engage customers with a consistent omni-channel experience. This, in turn, helps to maximize their customer base, bolster brand value and enhance revenue.

Figure 3: Illustrating the role of SMAC as the digital enabler

SMAC — The digital enabler
SMAC can help reimage an enterprise and impact a variety of value drivers – thus supporting an organization in its journey toward customer centricity. Customer experience, product innovation and operating efficiency are the three key value drivers to increase revenue and reduce costs.

Mastering the customer experience

EY’s Global Consumer Insurance Survey 2014 confirms that strengthening customer relationships and achieving customer centricity is a strategic imperative for the industry, as indicated by these key findings:

1. Insurers are not as trusted as other types of businesses; high turnover and low trust signal serious relationship issues.
2. Traditional measures of loyalty may not be strong indicators of actual behavior: just because they leave you doesn’t mean they don’t love you.
3. Insurers have so few interactions with their customers that each one becomes a critical moment of truth.
4. Consumers want more frequent, meaningful and personalized communications.
5. As consumers embrace digital, insurers must rethink their distribution strategies and partner relationships.

The survey sums up the expectations of what today’s customers are demanding from their insurers. Consumerization of business has decisively tilted the balance of power from the seller to the buyer – pleasing customers is the only way to keep them loyal.

Today’s internet and social media savvy customer is communicating primarily through digital channels and expects the insurer to deliver services through his or her personal digital devices. The insurer needs to understand preferences and buying patterns to offer the most relevant products and services.

Social listening and data analysis, segmentation, social behavioral analysis and preferred channels for communication are critical to enhancing the experience of this demanding customer. And, as this customer seeks access to information and business transactions – anytime and anywhere – cloud technology has made infrastructural setups available as cost-effective, plug-and-play services.

2. Reimagining customer relationships: key findings from the EY Global Consumer Insurance Survey 2014
**Driving value through product innovation**

Digital commerce opens new avenues for insurers to make their product configuration flexible, leverage new sales and service channels and to have the agility to accommodate customers’ preferences. Some product innovation initiatives include:

- **Digitization of traditional insurance products and services** – Automated and digital services are being used to extend beyond traditional channels for offering products and services. An analytics-driven self-service experience, delivered through personal digital devices, offers customers an unparalleled experience. Moreover, collaborating through social channels provides another cohesive and personal opportunity for a customer to interact with his insurer.

- **Commoditization of core insurance offerings** – Digital channels lower barriers to entry and increase globalization, leading to a spiral of intensifying competition and commoditization. Customers and competitors have access to a wealth of information, resulting in convergence of prices, values and product characteristics. Price comparison and unbundling of products means that the margin play is becoming more transparent and less acceptable to consumers. Insurers need to create new information asymmetries, which blunt the impact of price comparators and focus on innovation that can truly differentiate and put a value premium on their products and services. The threat of insurance commoditization could be managed with increased personalization, wrapping a service around a product and re-bundling products to realize price advantages.

- **Targeted sales and service** – Information from diverse sources is helping build credible customer profiles, leading to desired customer segmentation. This helps up-sell and cross-sell product offerings – with far higher rates of success. Knowing your most valuable customers helps retain them and serve others with less cost. The right customer insights will enable insurers to more effectively cross sell by leveraging sophisticated predictive models.
Go-to-market shift to digital

Managing top-line growth is a constant challenge for insurers. In order to penetrate new markets and capture the younger population, new sales and marketing channels must be exploited. Establishing the infrastructure for these digital channels is less challenging and could be managed from an integrated central hub.

The “go to market” shift is increasingly moving toward the digital space. It is not only cost effective and efficient, but also in line with customers’ and channel partners’ expectations of a less intrusive, self-service model. A direct-to-customer approach with straight-through processing makes it appealing for the Gen Y customer to transact business, while the existing (and likely older) customer base also benefits from process and channel realignments.

Cloud-based integrated systems lead to streamlined processes and reduced operational cost. At the same time, big data analytics and multichannel accessibility provide the right information at the right time through the right channels.

Figure 4: SMAC-enabled digital – ensuing results

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Customer-focused  Innovative products and services  Integrated and efficient systems and processes  Growth  New markets and channels

Ensuing results
Effective SMAC adoption
SMAC strategies need to be developed with a holistic view of the enterprise, assessing its value and risks. Enterprise architecture (EA), where business meets technology, is the right place to define an organization’s SMAC strategy (see figure 4).

A systematic approach begins with SMAC strategies that are driven primarily by effective collaboration, innovation and external stakeholders and supported by flexible business and operating models. The challenge is to accommodate the breadth of stakeholders (including customer and partners using multiple channels for communication) who could influence decisions on a SMAC initiative. Technology must be involved to get the right information with the required speed in a cost-effective way. It should be driven by business and EA, in collaboration with IT, taking into account the previously mentioned key influencing factors.

Understanding the objectives and drivers for a SMAC initiative lays the groundwork for all further analysis in developing the SMAC strategy and architecture, as shown in these examples:

- If customer experience is the key driver, then SMAC investments need to enrich customer experience processes by pleasing customers with personalized communication of their choice (social or mobile). This must be available 24x7 as a self-serviceable option and afford a holistic 360-degree view of the customer.
- If product innovation is the driver, then the investment should accommodate product configuration ideas from various stakeholders, enable product flexibility, and deliver the product in a manner that minimizes time to market.

Importantly, back-office processes and applications also need to be enhanced to satisfy these drivers and objectives.

Industrywide SMAC adoption

In a recent survey of the digital strategy of more than 30 leading US and European life and non-life insurers, 50% of carriers have budgeted for long-term digital goals, and just 30% have a multiyear investment plan to support digital. Most of digital efforts are focused on marketing (83%) and sales (78%) indicating that carriers have focused on the early stages of the customer decision journey (acquisition), but post-purchase ability to serve existing customers digitally was ignored. Nearly 39% had not articulated a digital strategy across the customer decision journey.
The complexities of investing
SMAC has a profoundly positive impact on those businesses that embrace it. However, not all companies have been able to harness the true value of their SMAC investments. The value of these investments depends on many factors, such as business model, operating model, type of service or product, customer demographics, organization size, processes, applications, integrations, and corporate culture. Without a proper assessment of the value and business impact, insurers are unable to realize the benefits of their investment in SMAC. As a result, many are wasting resources and relying on processes that add complexity.

Some critical reasons that organizations have not attained the fruits of their investment include:

- **Siloed implementation, based on a particular business or budget**: Companies may invest in sales and marketing functions to enable social media, mobile capabilities and analytics, but fail to address back-office and support systems.

- **Inadequate capabilities**: Investments do not build a foundation for capabilities. Existing IT systems, data, analytics and real-time capabilities to analyze social and mobile outputs need to complement SMAC initiatives.

- **Disconnected goals**: Target capabilities enabled from SMAC implementations must be aligned with overall business objectives. Committed executive sponsorship (with clearly defined goals) will bring value by selecting the right SMAC-enabled tools, technologies and processes.

- **Rigid business model**: Many models lack the agility to deal with the dynamics of digital technologies and will necessitate more flexibility in changing processes and strategies to engage in faster decision-making.
Conclusion

Traditional enterprise IT investment has focused on improving and automating internal operations. While that imperative still holds, the environment has radically transformed with the reach of the internet, rise of cloud computing and social collaboration channels, coupled with increasingly powerful personal devices. Everyone now wants to be connected and responsive.

Real-time interactions and rapid agility in dealings with customers, partners and employees are the real differentiators. If insurers do not adopt this thinking and approach, they will find it impossible to meet the expectations of the demanding customer who has a growing array of new options to buy insurance from new, digitally savvy competitors. Those insurers that cannot rise to this challenge risk losing market share to more nimble players.
How should insurers respond?

It is a now-or-never scenario. Insurers cannot afford to be complacent or to make the wrong decisions regarding digital. The first step is to create a comprehensive strategy to prioritize and address SMAC as a digital enabler and to provide flexible product offerings that meet customer demands and expectations.

The strategy must define longer-term objectives for realignment and prioritize business goals that are built on the digital landscape, including:

- Understanding and managing customers’ omni-channel activities
- Using customer analytics to provide insightful and personalized marketing, sales and service
- Developing operational efficiencies across business processes that will lead to flexible product innovation
- Making data-driven decisions based on analytics infrastructure that unlock the value in existing systems and leverages new data sources

In addition, the insurance operating model and governance must transform to meet digital maturity. In EY’s Global Digital Survey, a majority of companies did not feel they had an appropriate operating model. One quarter of respondents said that their “operating model was not very flexible to changes in the digital space and that the organizational structure did not facilitate the execution of digital business strategy.” Looking ahead, 78% aim to have an organizational structure to support their digital strategy within three years.

What can EY do to help insurers take the next steps?

EY offers a suite of issue-based, value-led services around digital transformation that enable insurers to calibrate their response to the opportunities and challenges that the digital landscape presents.

Our experts and specialists in insurance, marketing and sales, customer service, experience design, technology enablement, SMAC and insurance operation transformation can help insurers navigate the digital shift. This includes defining a comprehensive strategy, operating model optimization and subsequent solution enablement across the digital value chain.

Our methodology encompasses a mature approach to customer-centric digital transformation that is complemented by our deep experience in technology-enabling platforms.
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