



Digital Transformation for the Insurance Industry

Unleash Your Next-Generation Financial Services Business

January 2017



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Executive Summary

Today's insurance industry is ripe for disruption. In fact, experts predict that the industry will experience more transformation in the next five years than it has in the past 50.¹ This dramatic shift is driven by several factors:

- Today's customers expect the same capabilities and experiences they have when interacting with retailers, entertainment providers, the travel industry, and retail banks. They want to receive service anytime, anywhere, through any channel, on any device they choose.
- The new trend toward digitization is unleashing the power to transform insurance with easier, more cost-effective, and socially acceptable processes. This is made possible by the proliferation of mobile devices, which have become the new basis for business for the millennial generation and others.
- Non-traditional players are entering the insurance market, challenging the status quo and bringing innovation to an industry that has been historically slow to evolve.

The impact of these sweeping changes is being seen across the insurance value chain.

Figure 1. Digital Business Transformation—Across Insurance Value Chain



To remain relevant, your organization needs to find new ways to acquire and service customers. In addition, you can take advantage of new corporate models being developed to better leverage employees, mergers and acquisitions, and technology investments.

Underlying all these changes is the transformation to digital. According to a recent Cisco study, digital disruption will displace nearly 40 percent of private sector incumbents over the next five years. However, financial services has the potential to achieve a far higher digital “value at stake,” which defines how and which disruptive technologies can offer the best benefits over a set period of time.

Cisco identifies the five top strategic digital imperatives for transformation as:

- Planning Your Digital Strategy
- Securing Your Data and Systems
- Evolving Your Distribution and Customer Experience Model
- Digitally Enabling Your Workforce
- Aligning Your IT and Business Strategy

These imperatives help you enable new capabilities, differentiate customer and associate experience, and define new operating models across your enterprise. We often hear from insurer clients that they know they need to invest in digital, but are still defining what this means, where to start, and how aggressively to act. Cisco's Financial Services Digital Transformation Group works with top insurers to leverage technologies that will help them fulfill these imperatives.

Cisco is your partner in helping to develop and execute on winning strategies. With decades of experience in serving global financial services companies, Cisco is a leader in creating a new vision for today's financial services transformations.

¹ “18th Annual Global CEO Survey,” PriceWaterhouseCoopers (January 19, 2016)

Transforming the Insurance Industry

As the global economy has improved over the past five years, the insurance industry – especially property and life annuity businesses – has experienced steady growth as well. At the same time, however, this means that competition is increasing, keeping prices lower and tightening margin.²

To help support current income and build revenue opportunities, insurers are turning to transformative digital technologies. Digital platforms offer the power to personalize and strengthen connections with customers with new offerings and services. Insurers also gain access to deeper insights from data analytics, and commit to new business models to reduce risk, improve segmentation, and reduce fraud.³

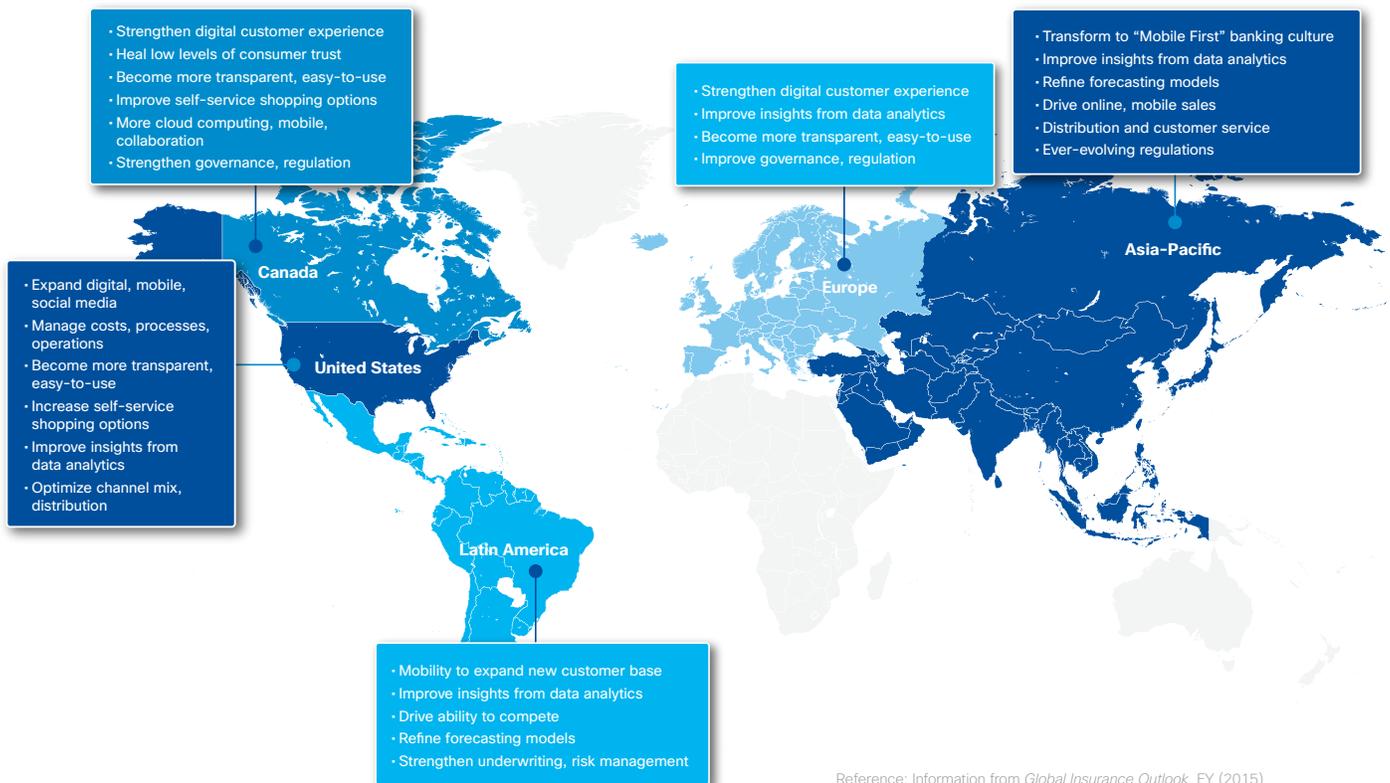
Digital capabilities additionally help meet regulatory requirements with more accurate and timely reporting, capital adequacy, and financial solvency. As well, insurers can reduce

operational costs by improving processes and increasing interactions and collaboration across the enterprise.

To more fully understand the rate of adoption, [the Global Center for Digital Business Transformation](#), a joint initiative of Cisco and IMD, surveyed 165 executives in 2015 to understand the nature and speed of digital transformation in financial services. This study produced several critical findings, including:

- Financial Services is one of the industries most at risk for major digital disruption (see Figure 3).
- Four out of ten financial services firms with major market share will be displaced in the next five years.
- 45 percent believe that digital disruption somewhat or significantly increases their risk of going out of business.

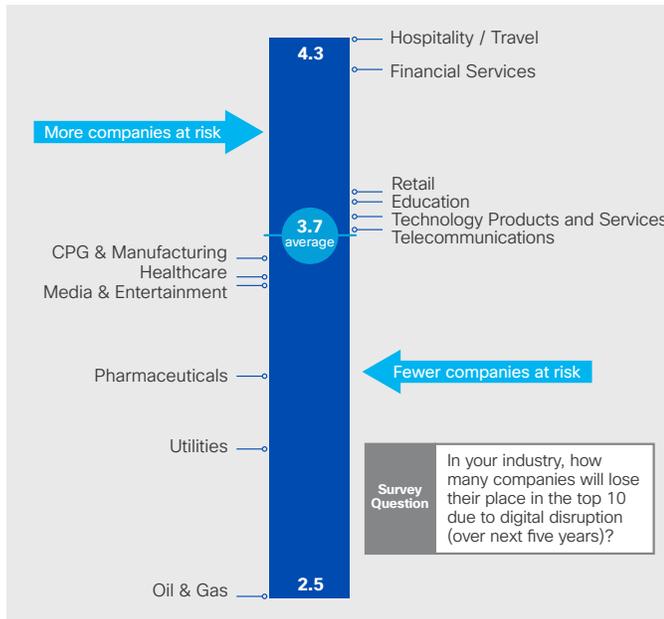
Figure 2: Specific Insurance Priorities for Technologies



² Global Insurance Outlook, EY (2015)

³ Ibid.

Figure 3. The Mighty Will Fall



Source: Global Center for Digital Business Transformation, 2015

In fact, 95 percent of the U.S. Fortune 1000 expects to undertake a digital project by 2017.⁴ And yet, Gartner studies show that while business and IT leaders know change is needed, less than 10 percent have achieved a clear integration between their network and digital business strategies.⁵ By 2020, every business will have become either a digital predator or digital prey, says analyst Forrester.⁶

Insurers face significant challenges in such an environment. Chief among these is high customer expectations based on their experiences with other industries. The “Amazon® effect” – the ease, convenience, and benefits offered by online retailers – has set an example that is causing consumers to demand the same level of interaction with many other companies. This effect is heightened by changing customer demographics: In health insurance in the U.S., for example, payers must address the needs of a larger, older patient population than ever before.

At the same time, many insurers lack the ability to align to customers’ evolving preferences. For example, a number of companies are unable to manage interactions across multiple communication channels, leading to a limited and disjointed view of the customer, rather than a 360-degree view. Consumers also want mobile apps, flexible contact centers, responsiveness on claims, competitive pricing, and easy-to-

use plans, to name just a few. Meeting all these demands is so difficult that your firm is probably, like most of the industry, experiencing high abandonment rates from year to year.

As well, clients are telling us that, as margins decline and price competition increases, they must compensate by improving operational efficiency and controlling costs. They need to balance the need for innovation and protection against risk, remain compliant with government regulations, and assure security across all functional areas.

To address all these challenges, insurers are moving to digital-ready infrastructures that enable a new level of real-time process and interaction enabled within new business models. A well-considered technology investment plan based on personalization, workforce innovation, optimized business operations, and manage risk capabilities allows you to generate savings and grow revenue over the course of the digital transformation journey. While the market waits for someone else to make the first move, you have an opportunity to seize the lead and achieve a sustainable competitive advantage.

Top Strategic Digital Imperatives

You and your decision-makers currently have the opportunity – and the need – to make a profound difference in the way your business is run. Choices made today will impact not just current business, but the long-term stability of your company. Your competitors are already formulating their plans to address pressing tactical and strategic business imperatives. Now is the time to embrace digital transformation to achieve a winning position.

Recent Cisco research found several troubling findings about the potential for disruption and incumbents’ unreadiness to adapt. Survey respondents believe an average of roughly four of today’s top 10 incumbents (in terms of market share) in each industry will be displaced by digital disruption in the next five years. Nearly a third are taking a “wait and see” approach, in hopes of emulating successful competitors. Only 25 percent describe their approach to digital disruption as proactive—willing to disrupt themselves in order to compete. The most successful disruptors employ “combinatorial disruption,” in which multiple sources of value—cost, experience, and platform—are fused to create disruptive new business models and exponential gains.

⁴ The Economist, quoted by Andy McDonald, “What will the African tech landscape look like by 2019?,” Memeburn (Nov. 13, 2015)

⁵ Gartner, Inc.

⁶ “Digital Predator Or Digital Prey?,” by Nigel Fenwick, Forrester Research, Inc., (March 3, 2015)

The difference between digital disruption and traditional competitive dynamics comes down to two main factors: the velocity of change and the high stakes involved. Digital disruptors innovate rapidly, and then use their innovations to gain market share and scale far faster than challengers still clinging to predominantly physical business models. They grow enormous user bases seemingly overnight, and then are agile enough to convert those users into business models that threaten incumbents in multiple markets.

Planning Your Digital Strategy

Digitization is made possible in today’s new technologies, which have become part of the value organizations deliver. Technology creates efficiencies and supports revenue growth. It also enables innovative capabilities through mobile

engagement, analytics, and services delivery, offering a consistent context for interactions across channels. Many services can now be automated, giving better access to previously unavailable data sources and setting rules engines to make routine process decisions.

Changes in consumption models are driving evolution in the way companies build, use, and deliver such solutions (see Figure 4). The result is an ability to leverage more customer and organizational information, scale reach to new levels, and enable penetration into areas of the market you have never touched before. Everything becomes connected – across data centers, the company, and customer mobile devices (see Figure 5).

Figure 4. The Financial Services Digital Transformation is Progress



Figure 5. Digital Transformation: Capabilities

In order to be able to deliver on Digital Business Transformation, organizations need to excel at a number of capabilities including:	
Hyper-Aware	<ul style="list-style-type: none"> Capture/Collect: Organizations need to become Hyperaware by increasing their ability to sense, monitor, and identify
Informed Decision Making	<ul style="list-style-type: none"> Analyze/Distribute: Real time accessibility and Visibility into info and insights Personalize/Predict: Providing context and recommended action
Fast Execution	<ul style="list-style-type: none"> Act thru Automation: Automate whenever possible Interact/Collaborate: The ability of people/customers/value chain to collaborate, communicate, and make decisions

Agile: Leverage information to identify changes and respond

Securing Your Data and Systems

Cybersecurity has become a board-level priority for financial services over the past two years. While the focus has been on protecting and preserving the organization against threats, security investments also impact the ability to achieve business growth. In a recent Cisco study, 74% of financial services institutions say concerns over security are hindering their ability to innovate, and 37% say they have stopped a mission-critical initiative because of security problems.⁷

The industry also recognizes that cyber-risks can create liabilities that are greater than insurance policy coverage. This calls for enhanced underwriting, rating, and mitigation of cyber liability insurance. Since cybersecurity falls squarely in the operational risk area, boards are also asking risk managers to quantify cyber-risks and reduce the chance of loss. New levels of visibility are therefore needed before an attack so that firms can more quickly identify potential risks and threats before losses occur. Extending this capability not only helps reduce cyber-risk, it provides a more granular level of reporting to meet regulatory requirements in compliance with industry standards.

However, most insurers are still secured by a complex mix of point solutions, based on siloed strategies that do not lend themselves to a single view of the company's security position. Your firm needs tested and validated security solutions that protect you, your customer, and proprietary information; that meet compliance guidelines; and that preserve the company brand across functions and channels.

Cisco takes a "before, during, after" approach to cybersecurity that deploys multiple networked solutions to increase visibility and maximize preparedness before, during, and after an attack. This strategy enables a stance of constant readiness, response, and resiliency, and is designed to address threats before, during, and after they occur. It is woven into every business operation, process, and interaction – after all, an industry built on effective risk management must surely be in the vanguard of managing security risk. And in

an increasingly dangerous world, it is no longer a matter of whether security threats will occur, but when (see Figure 6).

Evolving Your Distribution and Customer Experience Model

The insurance industry has many moving parts. Without effective collaboration throughout the enterprise and its value chain, processes and interactions may easily stall while operational efficiencies and other opportunities are lost.

At the same time, associates, customers, and third parties expect personalized, high-quality service anywhere, on any device. According to McKinsey & Co., "Most customers will interact with their agent across a full range of channels: in person, through mobile devices, by phone, Internet, and video conferencing."⁸ Through these various channels, they expect faster resolution of problems (preferably on first contact) and faster access to resources and information.

The reality for many insurance companies, however, is that these capabilities do not exist, or do so only in an incomplete fashion. Most are limited in terms of the options they offer for communication and engagement. The result is the all-too-well-known phenomenon of frustrated customers who are more than ready to switch providers.

By contrast, a unified collaboration and customer experience strategy will enhance business results while improving service, business growth, operational efficiencies, and cost per transaction. You have the power to create a new, personalized, differentiated experience for your customer – one that brings them back again and again. By making each contact faster and more efficient, by increasing your reach and connecting in new ways, you can drive consumer loyalty and engage in a more trustful relationship with them.

We see that providers that deliver an integrated customer experience have decreased quote abandonment, increased close ratios, enhanced onboarding of new customers, new cross-sell opportunities, and significant cost efficiencies.

Figure 6. Cisco Security Approach for Financial Services



⁷ [The Global Center for Digital Business Transformation](#), Cisco and IMD (Spring 2015)

⁸ ["Agents of the Future: The Evolution of Property and Casualty Insurance Distribution,"](#) McKinsey & Co. (2014)

Digitally Enable Your Workforce

As Baby Boomers leave the workforce for retirement, your company not only loses leadership but gains a significant gap in organizational knowledge. Younger workers need access to new resources to help them fill the shoes of more experienced elders. At the same time, you need to achieve better worker productivity by embracing a digitally enabled workforce.

To resolve this paradox, your organization must find ways to harness the technical knowledge and lessons learned by senior executives, making that competency available to the entire workforce. You also need to assess and reach out to more diverse groups of prospective workers, identify top performers, and provide them with the tools they need to maximize their contributions to the firm.

Just as important to hiring and retaining top talent is creating a work environment that will attract tech-savvy millennials. Many insurance offices remain firmly rooted in the practices of the past. But traditional offices are not well-suited to engaging employees who increasingly expect to be able to work across a variety of geographic locations, time zones, and digital platforms. They expect to collaborate freely, work wherever they are, and engage with customers across channels from the phone to social media.

To stay competitive, organizations need to transform their workplaces from cost centers into flexible, collaborative workspaces that empower workers to work whenever and however they want. Your competitors who are willing to provide a modern work environment will have the first choice of good talent.

We proved this at Cisco by example: When we deployed our workforce experience solutions in-house, we realized significant, ongoing positive results (see Figure 7).

Aligning IT and Business Strategy

Today, siloed management and information technology can easily become almost unmanageable. When tactical and overall strategic goals, data, priorities, processes, and tools do not align with those of other departments, there is increased risk of lost business, lower operational excellence and productivity, increased exposure to regulatory and compliance requirements, and higher operating and capital expenses.

Aligning IT with business functions helps to support your enterprise strategy by breaking down the silo mentality. It promotes a smooth flow of data and information across the organization. And, such an integrated environment far more strongly supports the omnichannel experience, improving your competitive position with an enhanced customer experience.

How to Transform Your Business Outcomes

Cisco research shows that insurers want to be able to partner with technology companies who can clearly demonstrate how their offerings align with business goals. This includes being able to provide tech-to-business insights, build strong relationships across IT and business teams, and present solutions in the context of your specific business. You also want to be sure to realize the value of your investments, and take advantage of flexible payment and delivery models.

Depending on your country location and business needs, Cisco works with you to meet the widely varying standards demanded of global insurance organizations. As part of our differentiated customer engagement service, our experts help to identify outcomes, simplify journeys, deploy experts trained to guide you through these changes, and capture the results that enable transformation. Our global perspective and industry expertise help you realize value, accelerate growth, and enable transformation.

Figure 7. Cisco Workforce Experience Survey – Key Areas of Digital Value Impact



We work with you to:

- Learn your business priorities
- Bridge the gap between line of business and IT
- Connect Cisco and partner capabilities
- Focus on the entire customer journey

Based on our Cisco Business Outcome Approach, your digital transformation drives toward your organization’s strategic objectives to derive solutions that most effectively help to achieve that outcome (see Figure 8).

Discovery

Depending on your location and business needs, Cisco executes a robust discovery process to identify and document how digital solutions can achieve optimal outcomes. This effort is not a single exercise, but a continuous process of analysis, documentation, and socialization throughout your organization and with the partner community. Cisco uses multiple techniques for investigation and diagnostic assessment, which may include stakeholder interviews, customer journey mapping, subject matter expert interviews, and use-case/best-practice alignment.

Figure 8. Business and IT Must Work Together

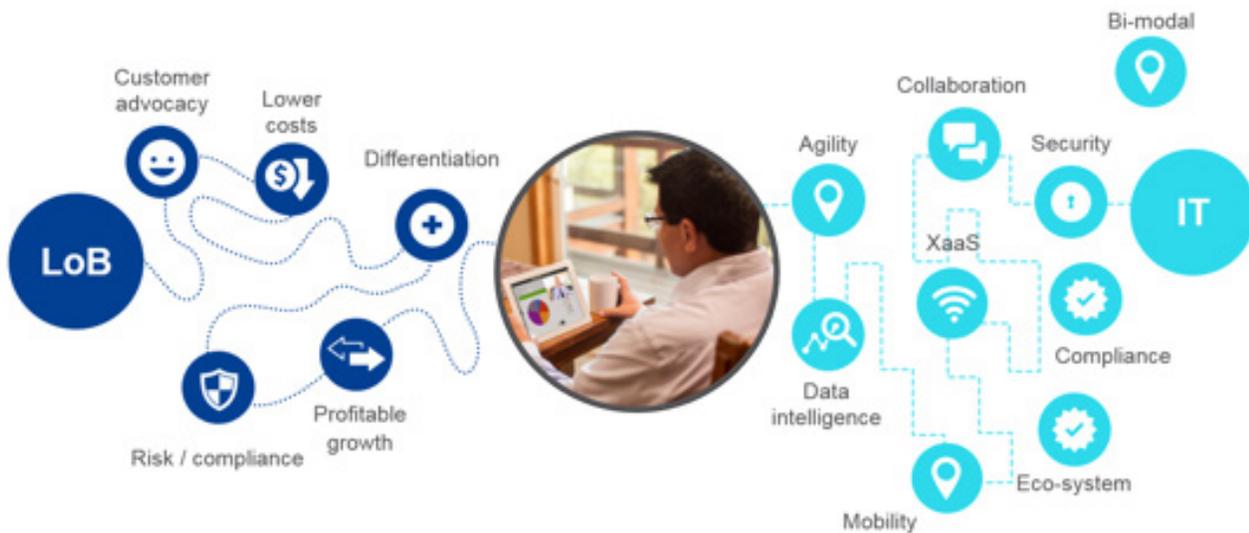
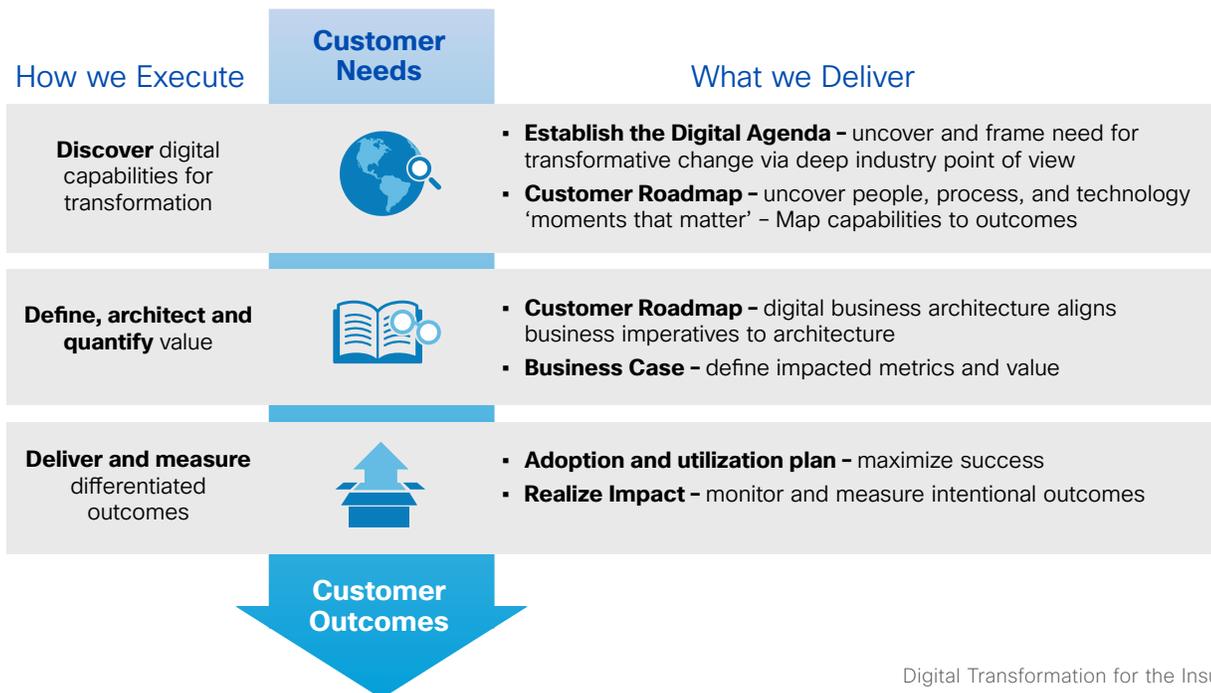


Figure 9. The Business Outcomes Approach



Design and Quantify Value

Secondly, Cisco may conduct a detailed Architecture Design that aligns your existing capabilities with prioritized solutions. In this way, you can leverage the findings from the discovery stage to drive an optimal outcome.

To help achieve this stage of digital transformation, Cisco can work with insurers to develop a Digital Transformation Roadmap. This outlines what you should be doing both now and over the next three to five years to achieve your stated company goals, while managing risk and compliance. It also helps to define which technology investments will deliver next-generation customer experiences.

To gauge the tangible economic benefit of your digital transformation journey, Cisco may also perform a “Value at Stake” analysis – a three-step process that provides an “outside in” point of view to your firm to define, validate, and quantify the business outcomes that the proposed solutions will help drive:

- **Phase 1:** Cisco customizes a “value map” based on solution use cases to show the connection between solution capabilities, business processes, key business levers, and metrics that will generate financial outcomes.
- **Phase 2:** Cisco calculates an order of magnitude of potential financial impact using a proprietary financial model, based on your publicly available data combined with industry benchmarks and assumptions.
- **Phase 3:** These Value at Stake results are presented to your stakeholders and provide a basis for further discussion.

The Value at Stake analysis will be further refined when you validate assumptions and approved data and metrics. It becomes the basis for a more comprehensive business case.

Acceleration

The third stage of Cisco’s approach is focused on solution acceleration, including deployment, measurement, and continuous improvement. Every outcome-based solution requires a detailed understanding of what will be achieved, as well as a detailed methodology for tracking and assessment to realize a viable return on investment.

Conclusion

Today’s insurance companies face a time of tremendous change, thanks to shifting economic circumstances, changing customer expectations, and increased competition from new players in the market. Companies must meet the demands of increasing regulation, new types of security threats, game-changing technology, and a ever-younger workforce.

To meet these challenges, the insurance industry is turning to digital transformation, adapting innovative business models similar to those increasingly seen in other industries. Financial services companies realize the highest digital value by focusing on improving IT programs, diversifying the types of products and services they offer, and finding new ways to deliver those offerings. As well, they are displaying greater convergence between IT and business objectives.

Cisco has more than 30 years of experience in the financial services industry. To define and deliver business value, we approach our work with authenticity, accountability, curiosity, conviction, and connection to achieve outcomes that matter. As the business landscape continues to change, you need the right guidance and capabilities to redefine how you can build new business models, infuse collaboration, simplify processes, create efficiencies, and generate growth, clearing the path for your journey to digital transformation.

For more information on how Cisco and our partners can help transform your business, please contact us at FinancialServices@cisco.com.



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C22-737336-01 01/17