



7 Steps to Digital Transformation: A Roadmap for Independent Insurance Brokers



Forward

For years, we have been talking about the impending digital transformation of insurance. Well, it is no longer coming – it is here. A number of drivers have brought us to this time of change. While digitally transforming your business may have seemed like an option just for early adopters, it is now an imperative for us all.

The new conversation is: Now that the digital transformation of insurance is here, how do brokers successfully navigate becoming digital businesses?

For those not yet on a path to digital transformation, understanding what is meant by digital transformation and the implications of transforming their businesses can appear daunting. While digital transformation is essential to the modern broker, it brings an array of challenges with respect to planning, resource allocation and change management. However, these challenges are by no means insurmountable and must be faced head-on to ensure a successful and sustainable business now and in the future.

To digitally reimagine the insurance business requires a clear transformation strategy driven by best practices. The intent of this paper is to provide just that – an explanation of what digital transformation means, and a roadmap for insurance brokers, including 7 critical steps for success.

I hope you find the information in this guide useful as you digitally transform your business to better deliver on the core promise of insurance: to safeguard and protect what matters most.



Yours,

A handwritten signature in blue ink, appearing to be 'RF' followed by a long horizontal stroke.

Reid French

Former Chief Executive Officer, Applied Systems

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Digital Transformation Drivers: What Changed Our Industry

We see and hear the term digital transformation repeatedly but what does it mean?

While there are countless definitions, McKinsey & Company break it down like this: “Creating value at the new frontiers of the business world, creating value in the processes that execute a vision of customer experiences, and building foundational capabilities that support the entire structure.”¹

With respect to insurance, digital transformation means utilising new products and services to enhance the traditional advisory role of the insurance broker and respond to the changing service expectations of insurance consumers and businesses alike. Digital transformation enables brokers to provide mobile services, like mobile-optimised websites and apps for customers and employees to access insurance information, and take advantage of greater connectivity with insurers, like integrated eTrading, to more quickly bind new business.

Digital transformation has effectively touched every industry and insurance is no different. Now that the digital transformation of insurance is here, opportunities abound for brokers who are ready to take the steps necessary to ensure their futures in the digital age. Yet, in order to properly prepare for digital transformation, it is important to understand the drivers that brought the insurance industry to this crucial point, which include:

- Demand for near instant fulfilment
- Exponential rate of change
- Changing customer expectations
- Disappearing tradeoffs between price, efficiency and innovation
- Unlimited access to information
- New digital-first competitors

“
It is not the strongest of
the species that survive,
nor the most intelligent,
but the one most
responsive to change.”

Charles Darwin

The Rise of the 'On-Demand' Consumer

Companies like Uber and Amazon have made ordering a taxi and shopping so easy that consumers have become accustomed to getting anything they want, whenever they want, from any device they want. As a result, customers expect this type of service from every company they do business with. According to the Salesforce report, *State of the Connected Customer*, 64% of consumers expect companies to respond and interact with them in real time.²

If businesses do not deliver, today's demanding consumers will seek out alternative providers.

“The natural outcome of this real-time reality for people is the expectation of instant gratification. We are rapidly approaching the instant gratification inflection point, closing in on the time when consumers demand products and services delivered anywhere at any time. Already, marketers are rushing to meet these growing demands (just look at Amazon's 'get it the same day by drone delivery' offer). The need for speed will only increase as technology enables and advances such an all-access economy.”³ – Simon Pugh, head of strategy and communications planning at PHD West.

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Generational Shift: From Digital Natives to Everyone

Over the past 30 years, rapid and increased technological innovation has significantly changed the behaviour and expectations of those generations coming after the baby boomers, most notably the millennials and Generation Z. For these “digital natives,” using technology and social networking are inherent to their nature. They expect the customer-centric, omnichannel experiences they have become accustomed to in other industries.

Yet, while these two generations of digital natives have been the driving force behind the demand for digital services, omnichannel experiences resonate with nearly all demographics. People of all generations use digital as the primary lens through which they work, play and interact causing the distinction between professional and personal life to dissolve. As stated in the TrendWatching report *Post-Demographic Consumerism*, “people – of all ages and in many markets – are constructing their own identities more freely than ever. As a result, consumption patterns are no longer defined by ‘traditional’ demographic segments such as age, gender, location, income, family status, and more.”⁴

“
Twitter’s fastest growing demographic between 2012 and 2013 was the 55-64 year age bracket, growing 79%.”⁵

Buffer

Consumers Have Taken the Driver's Seat

Both greater accessibility to information and the ability to easily create and share information online have shifted power from marketers to consumers. Consumers no longer have to wait passively for brands to advertise and market to them. Instead, digital technology has empowered individuals to consume personalised contextual information, make purchases and provide feedback about their own brand experiences instantly online to thousands if not millions of people. Thus, as noted by Salesforce, “in the age of the customer, technology fundamentally changes the way customers interact with companies. 70% of consumers agree technology makes it easier than ever before to take their business elsewhere, and 61% say technology is redefining their behaviour as a customer.”⁷

According to the IEDR (IE Domain Registry) *dot ie SME Digital Health Index* October 2017 survey, Irish consumers are tech-savvy and well accustomed to buying goods and services online. Today, Ireland's share of the European e-commerce marketplace is worth €9 billion, and by 2021, that is expected to rise to €14 billion.⁸

“
New technologies
have put customers in
the driver's seat of the
marketplace — giving
them power over which
brands sink or swim in
the digital age.”⁶

State of the Connected Customer,
Salesforce

New Built-In-Digital Competitors

Success in an industry brings new entrants. Investors, venture capitalists and even insurers themselves have taken serious notice of the insurance industry. In fact, total funding in the InsurTech space rose from €96 million across 18 transactions in 2010 to €1.5 billion across 174 transactions in 2016.⁹ The market is massive and potentially very lucrative. Changing consumer expectations have fueled competition and paved the way for digital-first insurance companies, which may not always take the same form as existing providers.

These InsurTech startups have taken the position that independent brokers do not have what it takes to evolve and develop over the next 5 to 10 years. They are breaking into a gap in the market that is growing wider every day. For example, the InsurTech app-based firm Lemonade exploded onto the scene in 2016 after raising €11.7 million from investors and has gained market share among first-time buyers of 27%, beating out industry giants.¹⁰ Lemonade's mobile app seizes on an opportunity to optimise a process — and consumers are responding to the convenience provided. While these new startups do not have the longstanding industry expertise and advice that brokers have as an advantage, these companies will shape consumer expectations for digital service from their traditional insurance providers.

€1.5 Bil

rise in capital for InsurTech investments in 2016, up from €96 million in 2010.⁹

Unprecedented Rate of Change

Never before have we experienced a faster rate of change. According to a 2011 Time Magazine article, computer technology at that time was progressing more each hour than it did in its entire first 90 years. Imagine how much faster it must be progressing today – minutes, if not seconds.

Technology Rate of Change



The constant quest to provide even more convenience to consumers has increased the technological pace. With new apps, devices, social platforms and business models being introduced almost daily, consumers have grown comfortable with the rapid pace of change. Havas Group’s *Meaningful Brands* report shows that people would not care if 74% of the brands they use disappeared from their lives.¹¹ This should serve as a wake-up call to those businesses refusing to acknowledge the rapid rate of change, for they run the risk of becoming irrelevant to modern consumers. Revolutionary offerings from only a year ago are rendered obsolete if they do not adapt to market changes fast enough.

“**Irish organisations need to digitally transform or be transformed by 2020. Put simply, digital transformation is using technology to evolve your business model to gain competitive advantage.**”

Aisling Curtis, Small and Medium Solutions and Partners (SMSP) Director at Microsoft Ireland

Disappearing Tradeoffs Between Price, Efficiency and Innovation

The days of differentiating your business by either price, efficiency or innovation are gone. Today, digital businesses can simultaneously toggle all three: cut prices, be more efficient and invest in sustainable technology. With the proper technology structure in place, striking a balance between these factors becomes more manageable and makes a business more competitive in a time of shifting demographics, attitudes and business models.

A study between Capgemini Consulting and MIT titled *The Digital Advantage: How Digital Leaders Outperform Their Peers in Every Industry*¹² argued that digitally transformed businesses realise significant economic benefits including revenue growth, profitability and market evaluation. Specifically the study showed:

>9%

revenue generation for
the leading segment
over others.

>26%

difference in profitability.

12%

increase in market
valuations.



Digital Transformation: Making the Case

When evaluating what digital transformation means for insurance, it is valuable to learn from the past to inform our future – and how brokers must react to succeed. Historically, existing industries have either ignored digital transformation, most often to their peril, or they have embraced it, most often to great success.

Think of Blockbuster, a company that once had revenue of more than €4.5 billion and employed 84,000 people around the world. The company's business did not react or evolve its operating model when digital transformation, exploited by companies like Netflix, took place.

Netflix used three attributes to drive Blockbuster out of business:

- A streamlined online experience to ordering DVDs (no more drives to the store)
- A more customer friendly pricing model (a subscription model with no late fees)
- A new technology (streaming) for the delivery of content

If brokers do not embrace digital transformation and adapt to current consumer expectations, other competitors will simply do it for them.

Benefits of Digital Transformation

Digital transformation strengthens an independent broker's core value as a trusted advisor and ensures longevity via a more competitive and sustainable position in the marketplace. Specifically, digitally transformed businesses stand to reap rewards related to customer retention, employee retention and return on investment.

Customer Retention

Customer experience is key for customer retention. Today's consumers expect omnichannel service in real time via their preferred channel whether face to face, by phone, or via web and mobile apps. The 2017 *dot ie SME Digital Health Index* report states that Ireland's digital health has improved to a record high with digital assets, including an online presence and web sales capabilities being crucial to an SME's online strategy. They purport that a digital asset allows a business to reach out to new customers, grow existing relationships, sell goods and services, and analyse market trends.¹³

According to a Walker study, by the year 2020, customer experience will overtake price and product as the key brand differentiator.¹⁴

A study by Bain & Company reports that even a 5% increase in customer retention can lead to increased profits between 25% and 95%.¹⁵ By delivering the excellent customer experiences consumers expect, both physical and digital, businesses create happier customers, which ultimately drive business returns through enhanced retention.

5X

It costs 5 times as much to acquire a new customer as it does to retain one.

9 vs. 22

Satisfied customers tell 9 people how happy they are. Dissatisfied customers tell 22 people.

60%

Organisations that prioritise customer experience generate 60% higher profits than their competitors.

80%

80% of your future profits will come from 20% of your existing customers.

Employee Retention

While attracting and retaining top talent is a challenge for any business, it is especially the case in the insurance industry. According to Insurance Journal, “almost half of insurance industry professionals are over age 45, with 25% of the industry expected to retire by 2018. To attract and retain talent now and in the future, brokers must make their businesses more appealing to a workforce that expects instant, customer-centric experiences by adopting a digital transformation strategy that enables:

- Innovation: Using digital technology to transform business operations
- Flexibility: Providing mobile apps and remote working options
- Security & Sustainability: Future-proofing the business for longevity

Return on Investment

Digital technology empowers employees to focus their time and effort on selling insurance and serving policyholders by reducing manual tasks and processes. Before digital technologies entered the workplace, brokers had to be in the office to complete tasks or provide customer service. Most business was conducted via phone, with brokers calling into the office to relay information to customer account executives. Today, mobile applications enable brokers to conduct business outside the office and deliver better service to customers and prospects. The greater efficiency that technology allows can have a significant impact on the bottom line.

400k

The number of jobs that will need to be filled by the next generation by 2020.¹⁶

144%

The increase in revenue per employee that digital brokers realise versus non-digital brokers.

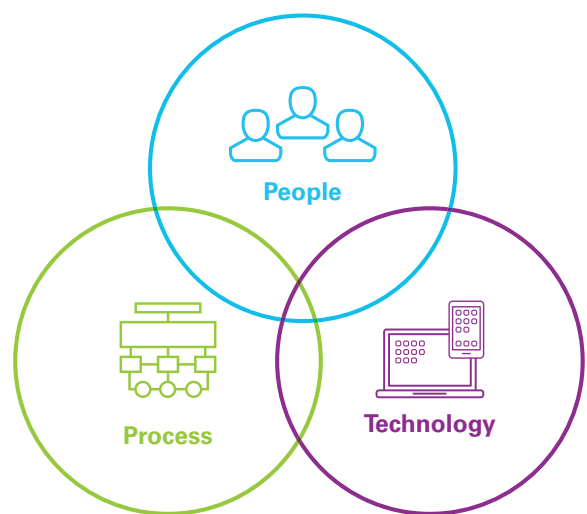
2018 Applied Digital Brokerage Annual Report, Applied Systems

Key Principles of Digital Transformation

Digital transformation is achievable with commitment to people, process and technology. Digital transformation does not need to be too challenging and complex. With focus on the three key principles, your business can manage change and digital transformation with ease.

People

The people who make up your organisation are one of the most crucial elements for digital transformation success. People must acknowledge and buy into the need to change at the most basic level. Once buy-in is established, employee engagement at each stage needs to be monitored closely to address any resistance and create a shared sense of urgency for change. Continual, transparent communications will foster listening and provide a sounding board for issues and concerns. To help create a more receptive environment, include employees in the planning process then clearly define goals, roles and processes.





Process

Processes detail how the work gets done, providing a plan for introducing and implementing your technology strategy. While tailored for the nuances specific to the technology implementation, processes should be flexible enough to adjust if/when requirements or conditions change. Risk can be managed by putting a robust governance structure in place, where processes are documented to establish a foundation for ongoing growth. Finally, processes should be continuously updated based on best practices and lessons learned.

Technology

Technology investment must encompass all aspects of your business, from managing internal staff to connecting to customers and insurer partners. It must integrate all applications to deliver a consistent user experience and create a single view of your business. Brokers will not succeed managing separate, disparate systems that create multiple sources of data. When selecting the technology right for the business, it must also be flexible and scalable enough to support current and future growth.

Transformation requires thoughtful consideration of how digital assets can help achieve your long-term business goals. Ask these key questions before getting started – and throughout the process – to set your business up for success:

- **What's our current situation?**
- **What are our long-term goals?**
- **Do we have a strategic plan in place?**
- **What digital and technology assets are crucial for our strategic plan to become a digital broker?**
- **What actions should we take to implement our digital strategy?**

7 Steps to Digital Transformation Success

Before diving into a transformation initiative, it is important to consider goals for growth and operational change. With this vision in hand, brokers can better plan productivity initiatives that deliver value.

Here are 7 steps to help brokers map out a successful digital journey:

Step 1: Begin the journey with the end goal in mind.

Determine what success looks like and create a game plan to achieve goals. With the end goal in mind, think about your current customers' behaviours and how their expectations have changed, and the potential business opportunities to be achieved. Ensure everyone in the business understands the changes and the benefits so everyone is aligned.

Step 2: Identify the right digital technology for your business.

Once you have set your end goal, begin to identify the gaps in your current digital strategy and evaluate which digital assets can best serve your business needs. When considering the technology to adopt, be sure to invest in technology that both your customers and employees expect in today's digital age. Keeping customer experience front of mind throughout this stage will make sure you future-proof your business for success in the years to come.

Step 3: Educate employees on your digital strategy.

With technology selected, encourage your strategic technology partners to support this change and ensure key stakeholders understand the digital landscape. Ensure all business leaders support the new digital-first mindset, schedule milestones and develop a timeline to review progress. Continue to educate your entire company on how the change will benefit them and improve business efficiency.

Step 4: Take advantage of existing and new data.

Ensure that your technology partner provides the tools needed to capture and translate data into your new systems. Focus on existing and newly captured data and set data standards for your new systems to ensure accurate customer management and reporting. Define key performance indicators (KPIs) early in the process so that your business can easily track against business goals and begin to predict customer requirements.

Step 5: Attract and retain talent with the right technology.

Establishing the right digital technology with your current team supports retention and makes your company more attractive for potential recruits. Create a clear vision of a digital business and develop a recruitment strategy that will enable you to deliver a competitive edge.

Step 6: Evolve operations and processes.

As you become a digital broker, embrace a paperless operational model and standardise workflows around new digital technology. Design, develop, deploy, manage and continually evolve processes to take advantage of all your digital technology capabilities and gain the greatest return on investment. By reducing time spent on previously manual work, you can focus more time on sales to build a sustainable competitive advantage with efficient processes.

Step 7: Innovate products and services.

Take advantage of your new digital technology and create new customer service and business models to make your business stand out. Use new channels and technologies to provide enhanced customer service and access to products. Use technology to differentiate your business.

The Bottom Line

Digital disruption has the opportunity to enhance your traditional proposition as a broker, maintaining your expert advice while also opening new opportunities for higher levels of customer engagement. Now is the time for insurance brokers to take advantage of this by focusing on new and optimised connected customer experiences. When insurance brokers understand the entire customer journey, they can creatively apply the right technology at the right time to build greater customer engagement.

About Applied Systems

Applied Systems is the leading global provider of cloud-based software that powers the business of insurance.

Recognised as a pioneer in insurance automation and the innovation leader, Applied is the world's largest provider of agency and brokerage management systems, serving customers throughout the United States, Canada, the Republic of Ireland, and the United Kingdom. By automating the insurance lifecycle, Applied's people and products enable millions of people around the world to safeguard and protect what matters most.



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This report was prepared by Applied Systems, Inc.

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