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# Introduction: The Readiness Leaders Spearhead the Revolution

The insurance industry is facing a series of daunting challenges: market disruption from InsurTech and niche or regional upstarts; operational disruption by new accounting standards and changes such as IFRS 17 and Long Duration Targeted Improvement (LDTI); downward pressure on premium prices; and more intense competition.

On top of this, the industry is in the throes of a digital revolution. Firms are under pressure to develop their digital offering as consumers demand convenience, efficiency and a seamless customer journey. The health insurance industry, meanwhile, has been shaken up by the shift to a preventive mindset; insurers are now designing products aimed at preventing potential health problems and creating new services based on wellness.

#### **Emerging technology definitions**

For the purposes of this study, we have used the following definitions:

**Artificial intelligence (AI)** – A broad term covering many sub-fields of computer science that aim to build machines that can perform tasks that previously required conscious intelligence. Sub-fields include cognitive computing, machine learning, natural language processing and deep learning.

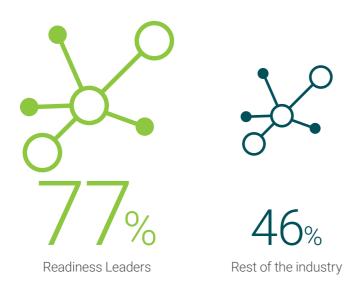
**Robotic process automation (RPA)** – The use of software to handle high-volume, repeatable tasks that previously required a human to perform by codifying rules for the computer or software to follow.



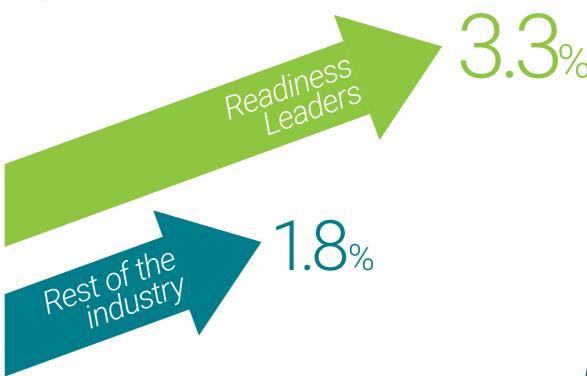
Rather than folding under the pressure, the top-performing insurers – the Readiness Leaders\* – are rising to the challenge by embracing new technologies and operating models that enable them to adapt and grow in this new environment. They are overcoming legacy IT challenges with the cloud and open application programming interfaces (APIs) and enhancing the customer experience with AI solutions.

Not only are they more confident that their technology can support their growth ambitions, the Readiness Leaders are also growing faster than their rivals. The rest of the industry must catch up in order to survive.

My technology can support my growth ambitions



Average global revenue growth over the past 12 months



<sup>\*</sup>The Readiness Leaders are the top quintile of performers in the FIS Readiness Index, with the highest aggregate score across six operational pillars: automation, data management, emerging technology, digital innovation strategy, client value and risk management.

# The Lowdown: Where Do You Focus for Growth?

Insurers accelerate digital innovation strategies to attract new clients, while AI is a powerful tool for retention

In a high-pressure market, a loyal customer base is the lifeblood of insurance firms. Our research shows that the goal of improving client retention rates has grown by 10 percentage points year on year – from 36 percent to 46 percent.

And firms are feeling the pinch from downward pressure on premium prices. The percentage of respondents who say that improved operating margins is a top growth objective has gone up year on year, from 34 percent to 48 percent — making it the second-highest growth objective in this year's survey.

The insurance Readiness Leaders, however, are looking beyond their current operations: they are already on the hunt for growth.

Client acquisition is one of our top three growth objectives for the next 12 months

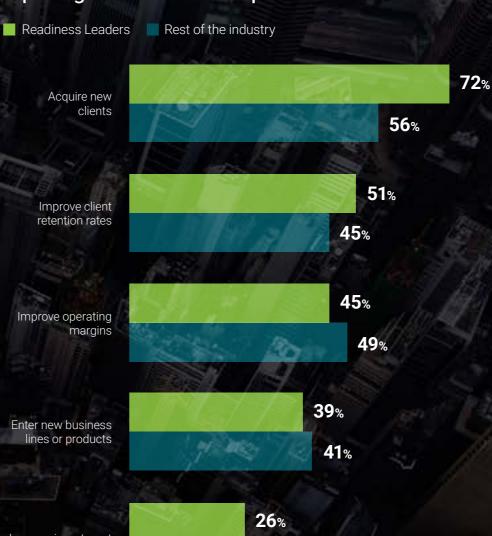
72%

Readiness Leaders

56%

Rest of the industry

Figure 1. For Readiness Leaders, acquiring new clients and improving client retention are priorities







Merger / acquisition



35%

Across all respondents, insurers are accelerating their digital innovation strategies in order to anticipate and meet new customer demands, including through the development of new digital products and services. But Readiness Leaders are more likely to recognize the importance of improving the customer experience.

Over the next 12 months, our digital innovation strategy must enhance the customer experience



Emerging technologies such as AI are also playing an important role in insurers' quest for growth: 44 percent of all respondents say that over the next 12 months, AI will be a top priority for technology R&D spending. Moreover, the Readiness Leaders are four times more likely to already be piloting or live with an AI solution.

We're piloting or live with an AI solution



Rest of the industry

But spending on AI is one thing; deploying it effectively is another. So while the Readiness Leaders are a long way ahead on Al adoption, they are also applying it to a different purpose.

We're using AI to enhance the customer experience



"Insurance firms have been trying out how to better engage their members and keep them from hopping from one company to another," says Christina Lucero, director, insurance product management strategy, FIS. "In this environment, AI is becoming a bigger play: to extract the value of the engagement they've been working on over the past few years."

## The impact:

Our survey shows that the industry's top priorities are to improve the customer experience and develop new digital products and services. Al-powered solutions will enhance the sophistication of the digital offerings available to consumers and increase convenience throughout the customer journey. For Readiness Leaders, this has already become a powerful way to retain customers. To stay competitive, the rest of the industry will have to follow suit.

### **Readiness actions:**

- · Accelerate the development of new digitally driven products and services to compete for the customer in a world of heightened expectations
- Embrace AI to help transform the different stages of the customer journey - from providing illustrations to paying claims - not just for operational change

# The Lowdown

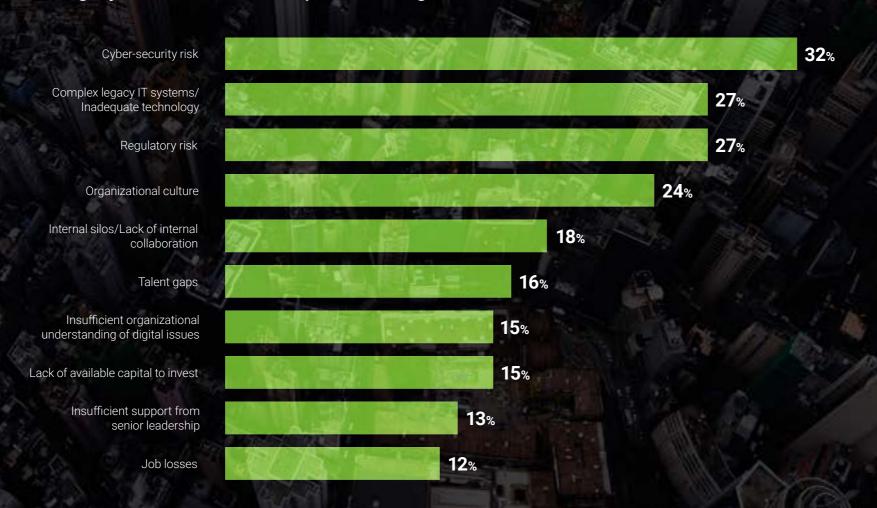
Legacy IT and cyber risk constrain innovation, but "rip and replace" isn't always the solution

The insurance industry is still struggling with outdated, inflexible and costly legacy systems that hinder innovation.

With a history of expensive projects that have fallen short of expectations, insurers should be wary of attempting to simply

"rip and replace" core back-end systems, says Selwyn Wies, vice president, product management/development, insurance, FIS. "They're going back to the drawing board now, realizing that they need to find a better way of knitting these systems together." Component-based modernization; targeted adoption of private, public or hybrid cloud; and alternative approaches to systems integration offer better alternatives.

#### FIGURE 2. Legacy IT continues to be a top barrier to digital innovation



Such openness might raise the specter of cybercrime. But while cybersecurity risk is respondents' top concern, the Readiness Leaders are facing this threat more confidently.

"Cybersecurity remains a barrier to digital innovation," says Martin Sarjeant, head of risk solutions management and strategy, FIS. "Customers demand a more and more connected experience, from simple mobile apps to insurance integrated with a range of Internet of Things (IoT) devices, in the expectation of reduced premiums and a more complete offering."

The Readiness Leaders have well defined cybersecurity, digital and cloud strategies; are embracing open APIs; and have a high level of collaboration with third parties. So it's no wonder they continue to outpace their peers in terms of revenue growth.

MARTIN SARJEANT, HEAD OF RISK SOLUTIONS MANAGEMENT AND STRATEGY, FIS

# The impact:

Insurers are looking to move toward new open innovation models and more efficient operating models that involve freeflowing data exchange, both internally and externally. But legacy technology and cyber risk are both presenting barriers.

The Readiness Leaders are prioritizing this as a matter of urgency: 31 percent rank cyber risk management as the number one technology-related skillset they are looking to improve over the next 12 months, compared with 22 percent of the rest of the industry.

Our cyber risk management capabilities are strong

85%
Readiness Leaders



45%

## **Readiness actions:**

- Look at component-based modernization, cloud and alternative approaches to systems integration rather than assuming you need to "rip and replace"
- Build a robust and well-defined cyber risk management strategy in order to ward off threats and ensure effective digital innovation

# The Lowdown

The Readiness Leaders are turning to open APIs to help them participate in new ecosystems and address legacy IT

The Readiness Leaders are already taking action to address legacy IT and embrace new ecosystems: they are twice as likely as the rest of the industry to use open APIs to enable a more effective exchange of data with third parties.

The Readiness Leaders are also more likely to understand that open APIs can help them enhance their products and services as they build the new ecosystems required to meet customers' evolving demands. The rest of the industry, meanwhile, is more likely to prioritize their use for marketing purposes.

We're implementing or have already deployed open APIs

45% eadiness Leaders

24% Rest of the industr

For some insurers, allowing the free flow of data is changing the way they work. "In the healthcare space, the focus is on building a solid architecture where data can be shared back and forth," says FIS's Lucero. "The insurers are analyzing this data in order to provide better care to their clients and help them to become more preventative in the long term."

#### FIGURE 3. Business functions prioritized for the application of open APIs



The Readiness Leaders have also been more active than their peers in collaborating with third parties and purchasing third-party technology to drive innovation. And as they adopt open APIs at a faster pace, these Leaders will be able to ramp up the effectiveness of these relationships, which will give them a further advantage.

We're actively working with third parties to drive innovation

48%

र्ध

39%

Rest of the industry

We're purchasing third-party technology to

49%

drive innovation

Readiness Leaders



22% Rest of the industry

# The impact:

The Readiness Leaders have realized that working with third parties allows them to accelerate digital innovation more quickly than those that try to invent solutions themselves.

Open APIs in particular will bring new opportunities for insurers to collaborate with third parties and accelerate the development of new services. For instance, as IoT and wearable technologies become more advanced and customer adoption grows, many insurers will partner with companies that make this hardware in order to develop preventive solutions for customers.

## **Readiness actions:**

- Embrace open APIs to participate in ecosystems and effectively integrate with third-party technology
- Take a multi-faceted approach to relationships with third parties to extract the maximum value and accelerate innovation and new services



# The Scores: The Readiness Index 2019

The Readiness Index scores industry respondents against six key operational pillars that will be important levers of growth in the years ahead.

The Readiness Leaders have the biggest lead in data management, emerging technology and risk management, but the gap narrows significantly for automation and digital innovation strategy.

The index pillars	■ Readiness Leaders	Rest of the industry
<b>Automation:</b> the level of process automation across the transaction life cycle. Robotic process automation (RPA), in combination with exception-based workflow, is the highest		







Data management: data management capability, including integration of data across the organization, big data and delivery of self-service analytics







**Emerging technology:** maturity of emerging technology adoption across mobile, Al and distributed ledger solutions









Digital innovation strategy: level of activity directed at strengthening digital innovation and propensity of the organizational culture for innovation









Client value: performance across client service metrics, including customization of products and services and mobile delivery, as well as strategy to differentiate the service offering







Risk management: competence in regulatory, operational, cyber and market/credit risk management





# The Scoop: How Readiness Leaders Maintain Their Edge

The Readiness Leaders have maintained their growth advantage over the rest of the industry because of their more advanced data and risk management capabilities and their faster adoption of emerging technologies.

## **Dealing with data**

The insurance industry is facing disruption by new entrants, but incumbents have a valuable resource: huge volumes of untapped data. If they can exploit that, they will deepen customer relationships and identify new insights while defending themselves against younger, nimbler competitors.

But making the most of that data requires them to have the right systems and technology in place – and be able to use them. The Readiness Leaders are ahead of the field when it comes to both data management and the cloud. And as a result, they have been able to overcome some of the data challenges associated with legacy IT systems.



We are effectively centralizing data sources from across the organization

82%
Readiness Leaders



51% Rest of the industry I'm satisfied with my ability to "operationalize" my data to analyze client behavior

83% Readiness Leaders



60% Rest of the industry

I'm satisfied with my ability to "operationalize" my data to speed up client onboarding

74%

Readiness Leaders



51%

Rest of the industry

We are migrating or have migrated one or more mission-critical application to the public cloud

43%
Readiness Leaders



30% Rest of the industry

Because they have this infrastructure in place, the Readiness Leaders can digest the massive volumes of data that are being gathered by new technologies. Other insurers, meanwhile, will have to transition to an infrastructure that enables real-time access to data if they are to become more connected with their customers through AI tools such as chatbots and with new preventative services.

# Managing regulation and data

Over the last few years, the potential of AI to transform the financial services industry has attracted significant hype. However, only now are more proven use cases beginning to emerge.

We've seen an increase in people putting automation around the processes that drive the balance sheet. This not only increases the governance and reduces operational risk, it also reduces costs.

**MARTIN SARJEANT, FIS** 

Again, the maturity of the Readiness Leaders' data management strategy is standing them in good stead. They are much more satisfied with their organizations' ability to operationalize their data to manage regulatory compliance requirements. They are also less fazed by IFRS 17 delays.

I'm satisfied with my ability to "operationalize" my data to manage regulatory compliance requirements

89%



54% est of the industr

There's been no impact on our implementation plans from the delay to IFRS 17

43%

Readiness Leaders



27%

Rest of the industry

## Riding the AI wave

The Readiness Leaders are already embracing AI in order to build better relationships with their customers.

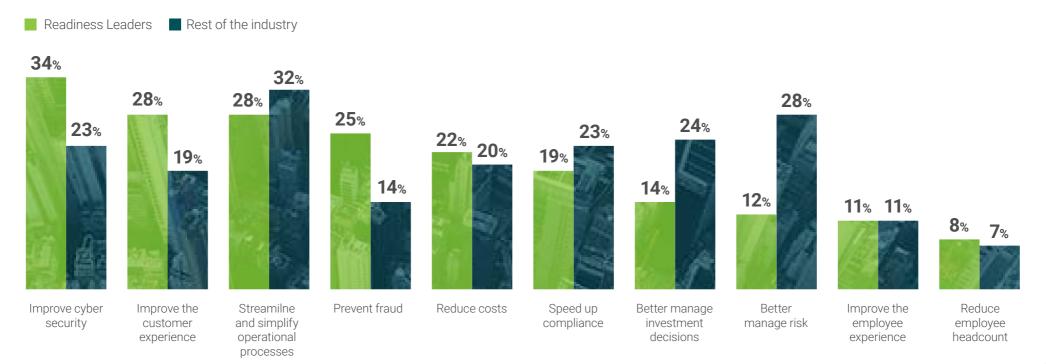
Improving the customer experience is one of the two most important business outcomes from my investment in AI\*





19% Rest of the industry

#### Figure 4. Readiness Leaders embrace AI to improve the consumer experience



<sup>\*</sup>Asked of those firms that are developing AI solutions

#### It's good to talk

Al includes online chatbots, which are gaining popularity within the insurance industry as a tool for engaging customers and building long-term trust. The Readiness Leaders are welcoming this technology as a tool for growth.

## We're investing in online chatbots

27%
Readiness Leaders



20% lest of the industry

Insurers can use the large amount of data on customer requests from chat, phone (audio clips from voice calls) and email to inform their customer relationships. This can be further supported with natural language processing technology, which learns from every customer interaction and leads to a more natural and human chatbot conversation – and a better customer experience.

This technology is especially popular among millennials. This increasingly important generation has adopted emerging technologies enthusiastically, and insurers will need to keep up with their expectations.

#### Powering efficiency in the claims process

Al also has the potential to streamline and accelerate claims processing and fraud risk management.

Al-powered claims bots can facilitate a "touchless" claims process, which can reduce the risk of fraudulent claims and human error and cut costs.

Machine vision is another type of Al gaining traction in the insurance industry. Al startup Tractable, for example, offers software that automates claims processing using machine vision technology. Ant Financial, meanwhile, has developed an app that can recognize and assess damage to vehicles and facilitate claims using machine vision.

The Readiness Leaders are more likely to recognize the value of such innovations.

# We're developing or implementing Al solutions for claims processing

44%



31% Rest of the industry

## Finding the value in risk management

Insurers that have accurate data to navigate risk will find themselves ahead of the field as they look to secure future growth. The Readiness Leaders are already in a stronger position because they can both gather high-quality risk data and use it effectively. Automating actuarial and risk processes, for example, frees up skilled actuaries to refine risk models and spend more time on value-adding tasks.

We're effective at delivering coherent, highquality risk data to the risk management team

78%
Readiness Leaders



53% Rest of the industry We've automated our actuarial and risk processes

37%



23%

Rest of the industry

"When you automate risk management processes, senior managers can feel more confident about the calculations and results that are feeding finance systems, used for decision-making and shared with external stakeholders such as regulators," says Sarjeant. "Automation not only reduces costs; it reduces manual errors and captures audit and approval information automatically. As the Readiness Leaders show, greater automation also pays off with increased confidence in their IFRS 17 projects and more time for tasks that will drive growth."

# The Way Forward: Get Set for Growth

The 2019 Readiness Index depicts an industry that is prioritizing the development of digital offerings and services for customers. This customer-centric approach is unsurprising, given the radical shift in consumer habits taking place within the industry.

However, the Readiness Leaders are taking a more sophisticated approach. They are addressing the shift in consumer behavior and expectations from multiple directions – from their data management models to their adoption of emerging technologies such as Al.

And they recognize that they cannot go it alone. They are adopting open APIs, purchasing third-party technologies, and collaborating with innovative third parties to adjust their businesses to the new customer-centric insurance industry.

As the Readiness Leaders move further ahead in key areas such as data and risk management and AI, the rest of the industry must act fast to catch up – and keep up.

#### **Recommendations**

1 Embrace AI to engage the consumer

When transforming systems and building new partnerships, never lose sight of the end goal: winning the customer.

Competition is fierce, and **customers are being offered a host of innovative solutions** to make their journeys more efficient, convenient and cost-effective. Insurers cannot afford to ignore this.

**Al can help.** The technology has become an indispensable tool for developing new products and services that are adapted to evolving consumer demand.

2 Move to an open architecture – but consider alternative paths to get there

Readiness Leaders are embracing open innovation models, using open APIs to enter new ecosystems and enable a free-flow of data exchange with third parties.

To modernize your core systems, **focus on approaches that integrate existing systems**, such as component-based modernization and private, public or hybrid cloud.

3 Approach collaboration from multiple directions

The Readiness Leaders understand the need to **collaborate** with third parties in order to drive growth.

As the insurance ecosystem continues to expand, learn to collaborate with non-traditional partners and **realize the value of acquiring third-party technologies and embracing open APIs** for access to third-party data and new ecosystems.

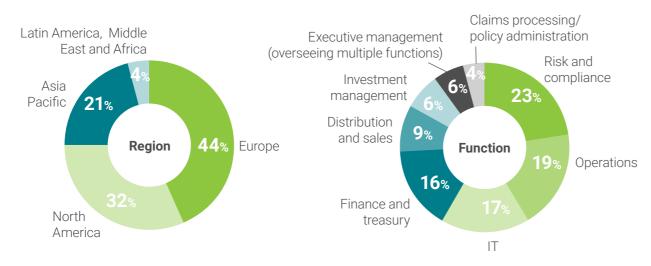
This can allow you to **tailor an omnichannel customer experience and drive long-term engagement** – but it may require a shift in mindset.

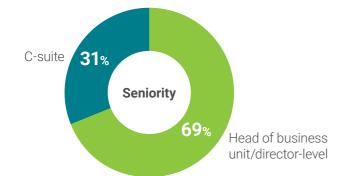
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# **About the Research**

Between December 2018 and March 2019, FIS and Longitude, of the Financial Times Group, conducted a survey of 511 senior-level respondents across the insurance industry. We also conducted a number of in-depth qualitative interviews with industry specialists at FIS.

## **Demographics**



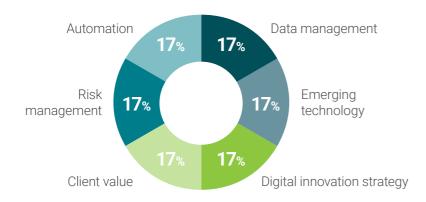




#### **About the FIS Readiness Index**

The index collates and measures more than 2,000 executives' self-assessment of their institutions' performance in six operational areas that are representative of how firms achieve growth.

## **Key areas**



#### **Questions**

For each category, executives were asked to respond to a series of self-assessment questions about their companies' performance within each area – for example, how well their company performs in unifying data sources across the organization or the extent to which it has adopted AI solutions. The questions were tailored to different types of businesses and functions.

## **Scoring**

The majority of questions included in the index asked executives to rank their businesses on a scale of 1 to 5, where 5 = highly effective/active, etc., and 1 = highly ineffective. Respondents who chose "Don't know" were given a neutral score of 3.

Several questions, such as those related to digital innovation strategy, asked respondents to choose from a range of activities or strategies that their companies may be involved in, such as M&A, third-party collaborations or incubator programs. For these questions, companies undertaking at least five activities were awarded a top score, with the remaining responses scaled accordingly.

## **Building the Readiness Index**

The question scores were aggregated for each individual respondent – first to a category score and then overall. To allow for more refined insights, both category scores and overall scores were placed on a scale of 1 to 10, where 10 is best. As shown above, the categories each receive an equal weighting in the index because we believe that each area should be accorded equal merit.

# Ready. Set. Grow.

The 2019 Readiness Report

#### **About FIS**

FIS is a global leader in financial services technology, with a focus on retail and institutional banking, payments, asset and wealth management, risk and compliance, consulting and outsourcing solutions. Through the depth and breadth of our solutions portfolio, global capabilities and domain expertise, FIS serves more than 20,000 clients in over 130 countries. Headquartered in Jacksonville, Florida, FIS employs more than 55,000 people worldwide and holds leadership positions in payment processing, financial software and banking solutions. Providing software, services and outsourcing of the technology that empowers the financial world, FIS is a Fortune 500 company and is a member of Standard & Poor's 500® Index. For more information about FIS, visit www.fisglobal.com

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