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FUTURE-READY SYSTEMS

The leadership difference

AN INSURER'S GUIDE TO OPTIMIZING TECHNOLOGY INVESTMENTS

CONTENTS

GETTING TO GRIPS WITH THE ENIGMA OF DISAPPOINTING TECHNOLOGY RETURNS

It's 2015, and you're the CEO of a well-known insurance company. With your CIO and executive team, you've invested in a number of technologies that are crucial to the business: AI, cloud and data solutions, open source platforms and several others. You've watched the market carefully and you feel secure in the knowledge that your competitors are making similar investments.

Yet by 2018, you've noticed your revenues have fallen slightly behind those of your competitors which started off on the same financial footing (see Figure 1). You can't quite put your finger on it, but a hint of concern creeps into your board meetings. Your CIO expresses puzzlement: all the right technologies are in place, but the leaders in your industry—although they are still in the same ballpark—are growing their revenues twice as fast as you are. At this rate the competition will have grown by factor 2.1 in the eight years between 2015 and 2023, and you will have grown by just factor 1.5. Shareholders are raising their eyebrows as capital markets remark on the contrast between you and your more successful peers.

Now more than ever, with unknowns like the COVID-19 pandemic or other business threats, the way you and your board manage technology investment and adoption will make or break your financial future.

METHODS AND MINDSETS CRITICAL TO SUCCESS

In 2018, Laggards lost out on 10 percent of their potential annual revenue. If they don't change, they could forgo a staggering 37 percent of their potential revenue in 2023.

Accenture's Future Systems survey, its largest enterprise systems study ever, has looked at what the average insurer should be doing to keep pace with the leaders. The differences between leaders and the rest of the pack are key to understanding where you really are, and what you should be doing.

The study has resulted in an approach we call Future Systems. It enables insurers to chart the optimal path to realize the full value of their investments in leading-edge technology. Most carriers are failing in this regard, resulting in an 'innovation achievement gap'—the difference between their actual and potential returns on investment in new technology.

The gap varies from one insurer to another. In many cases, organizations believe they have a good grasp of their technology and are utilizing it appropriately—yet they continue to lag the industry leaders in terms of the value they derive. It doesn't seem to make sense.

Insights from Accenture's primary research identified three distinct groups of organizations. The Leaders achieved scores in the top 10 percent of our sample, based on a scoring model that measured technology adoption, the extent of this adoption across organizational processes, and organizational and cultural readiness for technology adoption. The Laggards made up the bottom 25 percent. And between these two outlying groups were the Middlers.

As Figure 1 on the following page shows, the actions and attributes that place an organization among the Leaders also result in significantly greater success in extracting value from new technology. The long-term impact on revenue growth is remarkable.

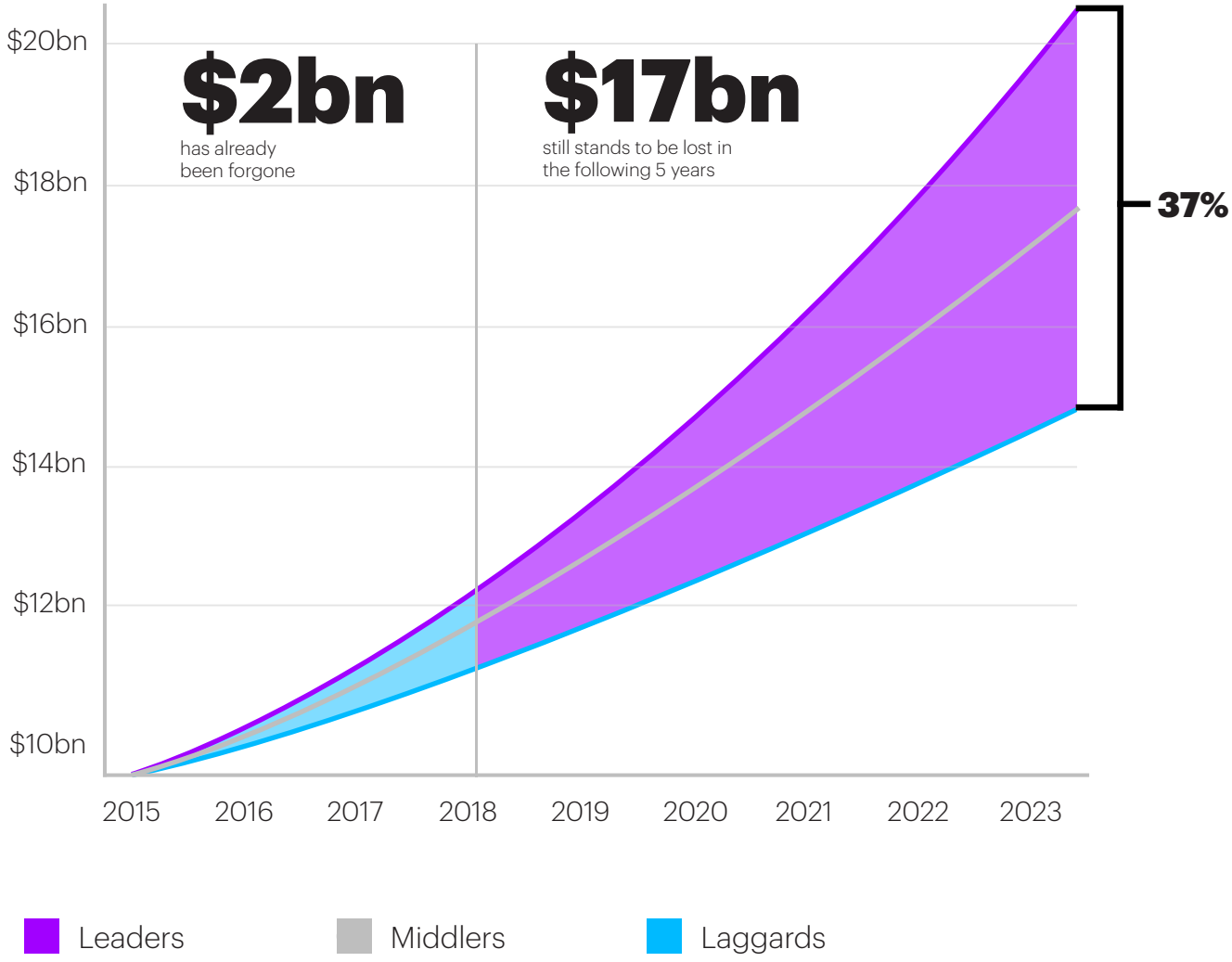
Over the eight years between 2015 and 2023, insurance Leaders can expect to have more than doubled their revenue base. Laggards, on the other hand, are likely to achieve less than half of this growth. The innovation achievement gap between Leaders and Laggards, over the eight-year period, will have widened to 37 percent. This will be worth $5.7 billion for an insurer that started with revenues of $10 billion in 2015.

Between 2015 and 2018, insurance Middlers managed to grow at a similar rate to that of the industry's Leaders (revenue CAGR of 7.2 percent vs. 8.0 percent). However, those that fail to follow the example of the pace setters will miss out on the opportunity for significantly stronger future growth (projected 2018-2023 revenue CAGR 7.8 percent vs. 10 percent, which equals a revenue gap of more than $2.5 billion for Middlers compared to Leaders in the period 2018 to 2023).

SURVEY METHODOLOGY

The Future Systems Research study, conducted by Accenture in 2019, surveyed 8,356 C-suite executives representing corporations across 22 countries and 20 industries. The sample included 515 insurance firms. The majority of participating companies have an annual revenue in excess of $5 billion.

Figure 1. The growing difference between Leaders' and Laggards' growth rates



Based on a notional $10bn in revenues for a given insurance Leader and Laggard counterpart in 2015, a 37 percent revenue gap is expected in 2023.

TECHNOLOGY INVESTMENT, COLLABORATION AND CULTURE ARE KEY DIFFERENTIATORS

The Future Systems study analyzed what sets Leaders apart from their peers. The most important success factor, in insurance as well as all other industries, is how the CEO sees the potential and purpose of the organization's technology spend. We polled insurers about their implementation of 25 key technologies, and evaluated insurers based on a selection of relevant technologies for insurers from the total surveyed set. An average of 95 percent of Leaders and 89 percent of Middlers have adopted these technologies. Only 43 percent of Laggards have done so (Figure 2).

Figure 2. Implementation of a selection of relevant technologies for insurers from the total set of surveyed technologies.

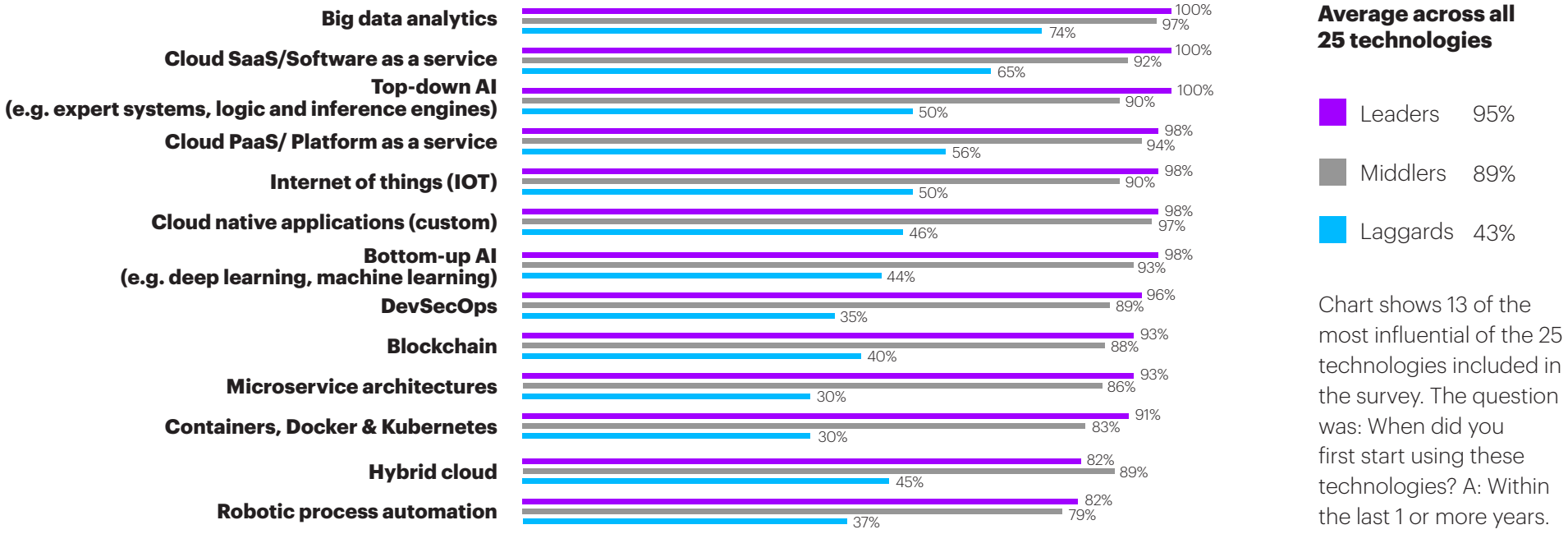


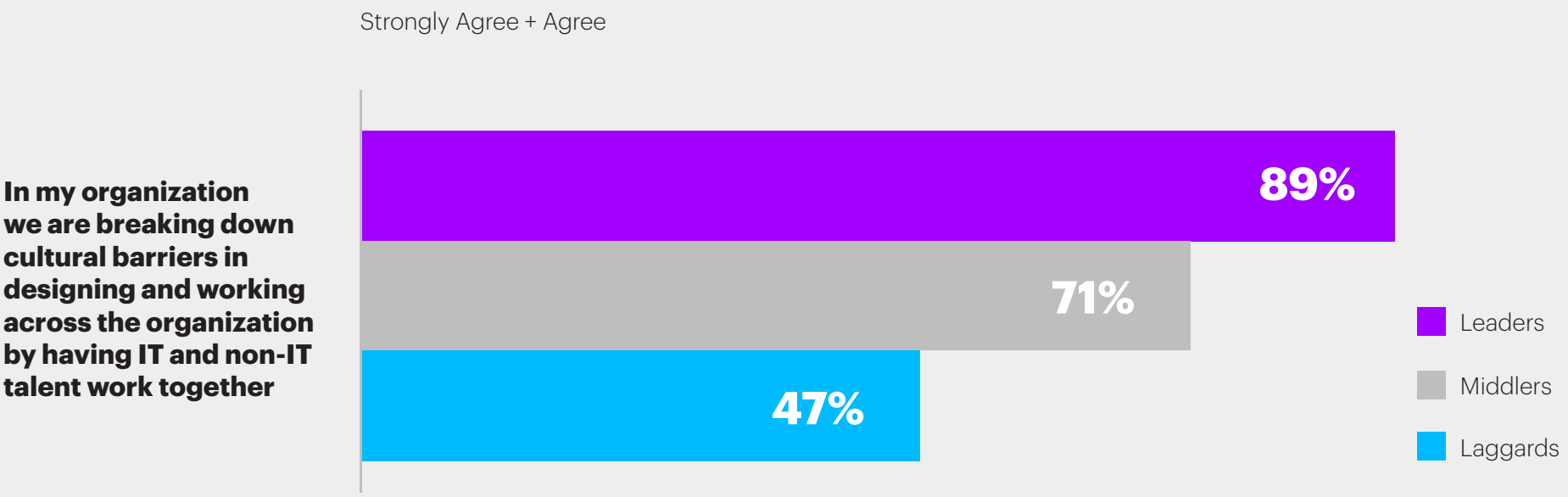
Chart shows 13 of the most influential of the 25 technologies included in the survey. The question was: When did you first start using these technologies? A: Within the last 1 or more years.

The survey also revealed that, among Laggards, investments tend to be fragmented, resulting in too many disparate systems operating in technology silos that echo the organizational structure. These silos often preclude collaboration between various parts of the business. Fragmented decision making seldom reflects strategic business goals, and without appropriately connected data the business is effectively barred from the full potential of insights and innovation opportunities. This also results in more complex systems maintenance.

Looking at the way investments are driven, the survey reveals that many of the Middlers fall just outside the Leaders group with respect to several of the scored actions and attributes. The majority of these insurers have the right mindset: they invest actively, are much closer to Leaders than to Laggards in developing boundaryless, adaptable and radically human systems, and they recognize the importance of cultural integration (Figure 3) and business/ IT alignment (Figure 4).

Figure 3. Insurance Leaders and Middlers have been more successful in eliminating cultural barriers.

Q. To what extent do you agree with the following statement?



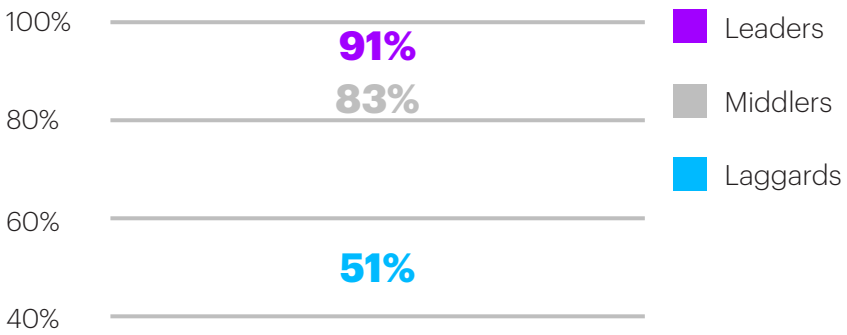
BUSINESS-IT ALIGNMENT

Figure 4. Insurance Laggards lack the business-IT alignment of their peers.

Q's:

1. How important is business-IT alignment for scaling new innovations in your industry?
2. How effective is your organization in achieving this alignment?
3. What are the key impediments you face?

- **People-led problem solving**
- **Interoperability and consistency drives systems design**
- **Connected organizational silos; IT and business co-create**

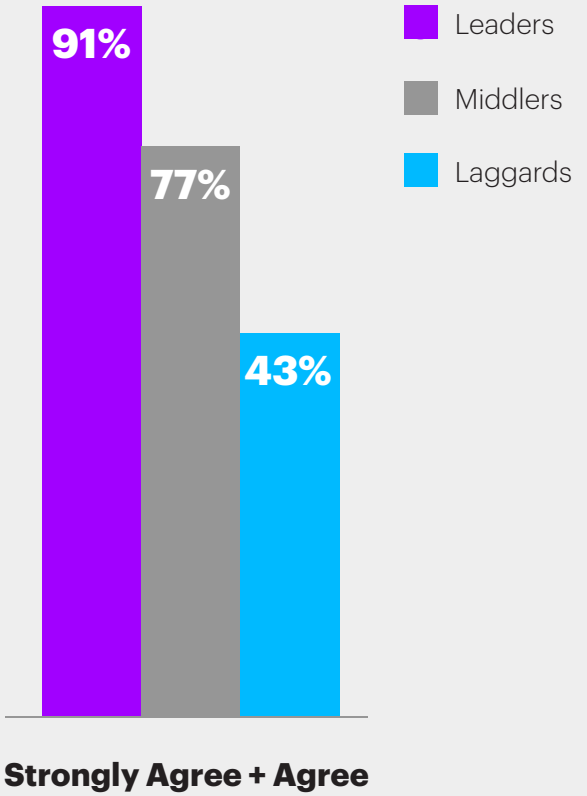


- **Technology-led problem solving**
- **Frequent friction from incompatible systems and data**
- **Siloed, disconnected business units/processes**

Insurance Leaders and Middlers are also markedly better than Laggards at enabling their business and IT executives to gain a clear perspective of their status and progress with regard to the development of Future Systems (Figure 5).

Figure 5. There are clear differences in insurance executives' ability to observe progress in Future Systems.

Q. To what extent do you agree with the following statement: I have visibility of all the automation and AI initiatives across my organization.



While insurance Middlers come close to Leaders in many of the key areas, they tend to fall behind a little when it comes to mastering technologies at scale and at speed—decoupling the IT stack and building architecture flexibility. Nor do they reinvest in new technologies or develop the same levels of expertise as Leaders do.

Figure 6. The gap between insurance Leaders, Middlers and Laggards is greatest with regard to technology adoption and smallest for security.

Q's:

1. How important is business-IT alignment for scaling new innovations in your industry?
2. How effective is your organization in achieving this alignment?
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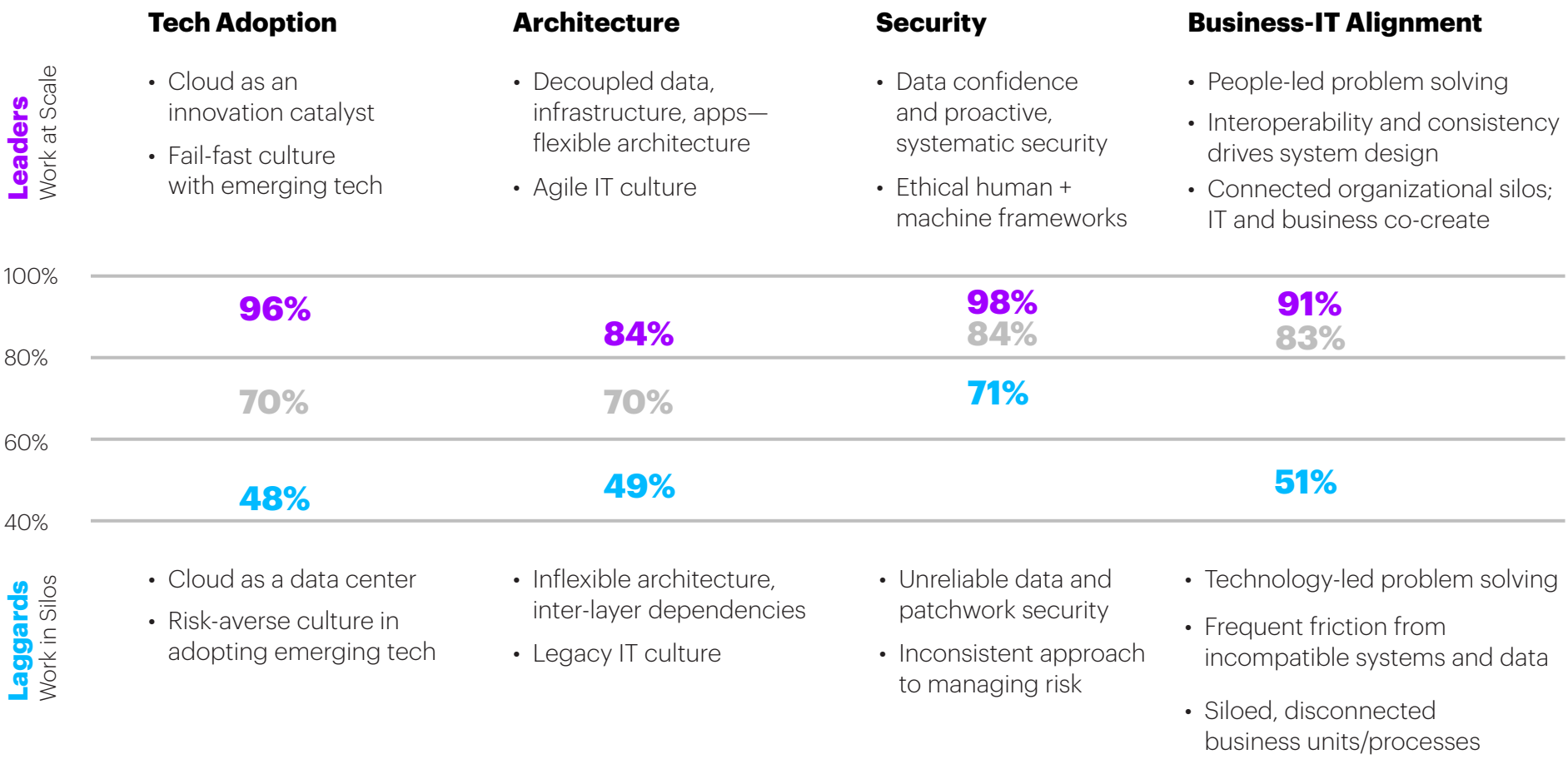
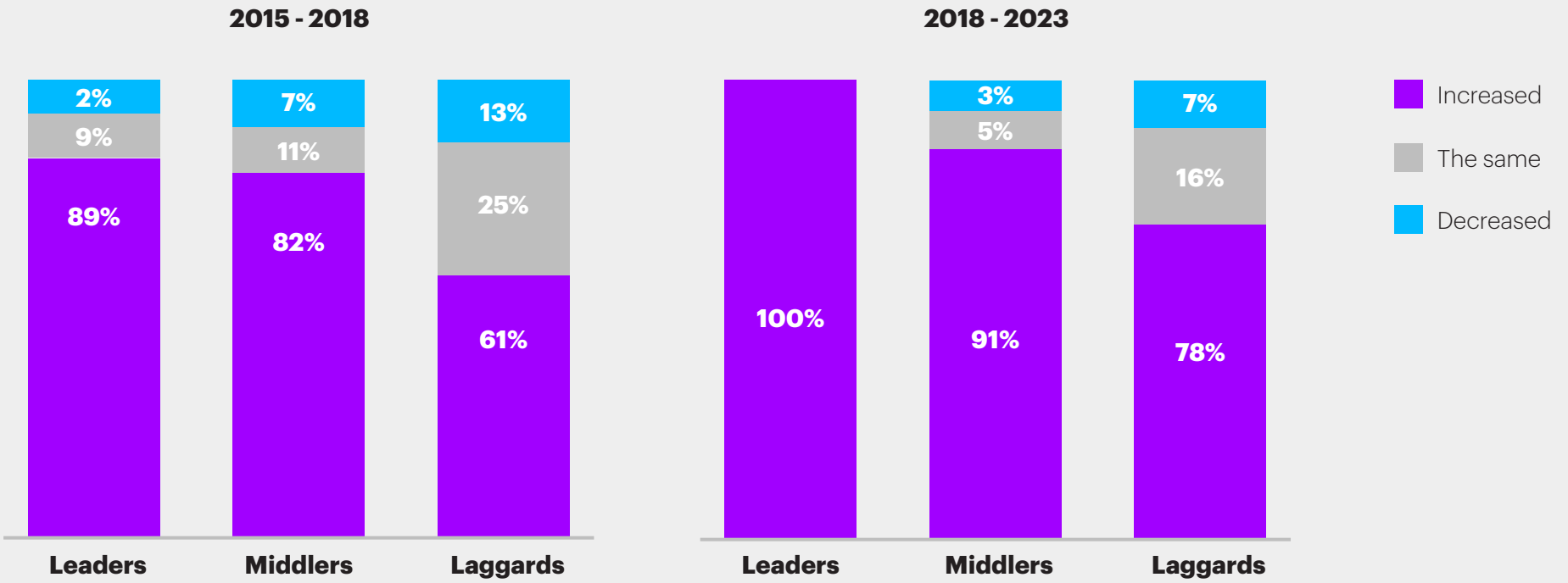


The gaps between Middlers and Leaders confirm that while the former agree that Future Systems are the way to go, they admit they aren't nearly as well prepared for these technologies as Leaders are. With the right interventions, however, they can overcome their historical under-performance and move closer toward maximizing the return on their technology investment.

76%
of Leaders agree that decoupling the entire IT stack is a key step towards adaptable systems

Figure 7. Insurance Leaders are more likely than their peers to increase their investment in innovation.

Q. How has the proportion of your IT budget dedicated to innovation (and not operating costs) changed? How do you expect it to change in the future?



WHAT CAN INSURERS DO TO MAXIMIZE THE RETURN ON THEIR TECHNOLOGY INVESTMENT?

The Future Systems survey found that while investment in key systems is necessary, it isn't enough to ensure market leadership. Even Laggards invest in technology, but their silo-based spending prevents them from gaining industry-beating returns on their investments. Insurance Leaders and the top Middlers build future-ready systems, while Laggards don't.

One common reason is fragmented decision making. CEOs' best intentions are thwarted when they place business unit, product or geography heads in charge of technology investments for their areas. While this approach delivers short-term incremental benefits in those areas, it also creates silos of deeply established (often customized) technology that isn't easily interoperable. This at a time when cloud offers the potential to unlock the value of data gleaned from across the enterprise. And when cross-enterprise AI systems promise to free up resources that are vital to organizational agility. The opportunity to gain new insights based on integrated data is lost and promising pilot programs never get scaled across the business. Future Systems, on the other hand, multiply value. But they require a radically different approach.

INSURERS MUST GET OVER THE BAR: BOUNDARYLESS, ADAPTABLE AND RADICALLY HUMAN

While the research shows that Leaders are outpacing Laggards in their adoption of technology, it has been demonstrated that investment on its own is not enough to keep up. Leaders are building technology that is boundaryless, adaptable and radically human. They need systems that break down barriers—within the IT stack, between humans and machines, between the IT department and the business, and throughout the partner-client ecosystem.

Boundaryless, adaptable systems powered by advances in security, data and intelligent technologies deal seamlessly with change. They minimize friction, scale innovation, and learn and improve on their own. Radically human systems can talk, listen, see and understand the way employees do their work and how customers engage. They adapt machines to humans, not the other way around.

Figure 8. Key features of Future Systems.

Strategic Attributes	Key Points
Boundaryless	Boundaryless systems blur boundaries between: • The IT stack (data, infrastructure, applications) • Humans and machines • Organizational and industry silos
Adaptable	Adaptable systems provide scalability and strategic agility: • They seamlessly adapt to business and technology change • They have flexible, living architectures and new ways to protect and nurture data
Radically human	Future Systems can be radically human: • They empower humans to interact with machines e.g. through natural conversations and simple touches • They adapt to humans, not the other way round

THREE PRACTICAL STEPS TO GET YOU OVER THE BAR

To implement future-ready insurance systems and derive optimal benefits, CEOs need to develop both a tactical and a strategic vision and plan. A vital component of this is an appropriate investment plan that includes many new technologies. Our research shows that leaders focus on three practical steps to maximize the business impact of this vision and plan:

1. **Focus on important non-IT-related areas**
2. **Break down technology silos across data, infrastructure and applications and establish a technology ecosystem within and beyond the organization**
3. **Modernize legacy technology by leveraging the cloud and decoupling the IT stack to enable customer-centricity**

REAL-LIFE FUTURE SYSTEMS

Three examples of financial services groups that are breaking down silos and leveraging cloud and data technologies to create agile businesses, ready for growth:

Lloyd's of London targets simplified market access, lower costs, higher client value across its lines[3]

A recent, strategic multi-year investment program supports the insurer's growth, effectiveness and productivity, while downsizing its cost base and targeting a culture of inclusivity and innovation.

Ping An invests in technology R&D in world-leading fintech and healthtech[4]

A major investment program by the Chinese giant Ping An includes the exploitation of new technologies (AI, blockchain and cloud computing) to boost revenue growth of its five ecosystem businesses (FS, healthcare, auto services, real estate services, smart-city services).

Swiss Re launches Digital Market Center[5]

The center is designed to help develop next-generation large-scale tools to transform the way the insurance industry predicts and manages risks, as well as new product creation. Swiss Re's work in this area will go beyond new-product creation, providing broader risk insights for complex, interconnected systems.

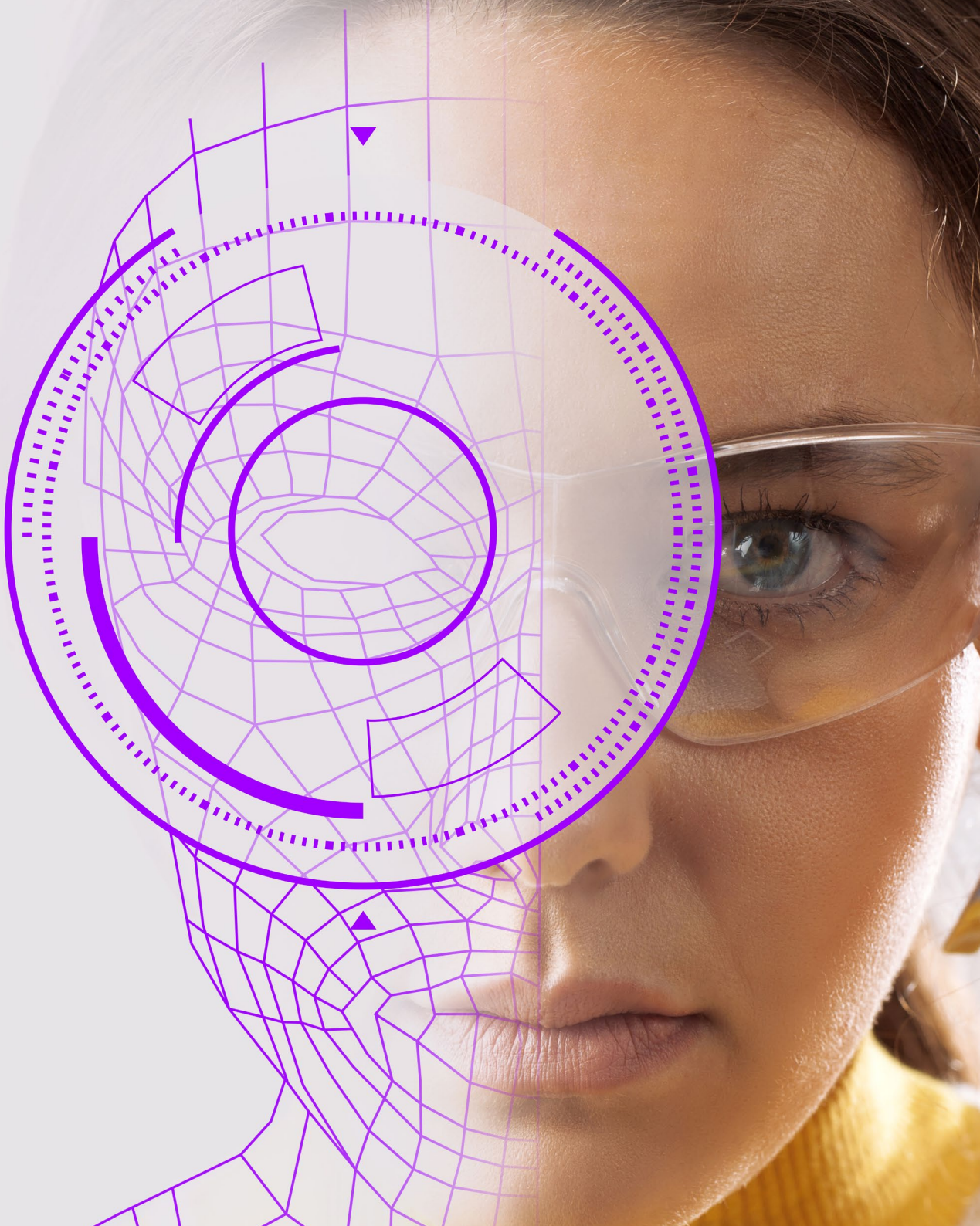
HOW TO GET OVER THE BAR

1. FOCUS ON IMPORTANT NON-IT-RELATED AREAS

The most critical areas are IT / non-IT collaboration and the cultural barriers that impede it; change management; and the development of personal skills and capabilities.

The research shows that the performance gap between Leaders and Laggards is markedly smaller in insurance than across all industries. This may be because 75 percent of insurance respondents say their systems are breaking down the boundaries between data, infrastructure and applications, between humans and machines, and even between competing organizations.

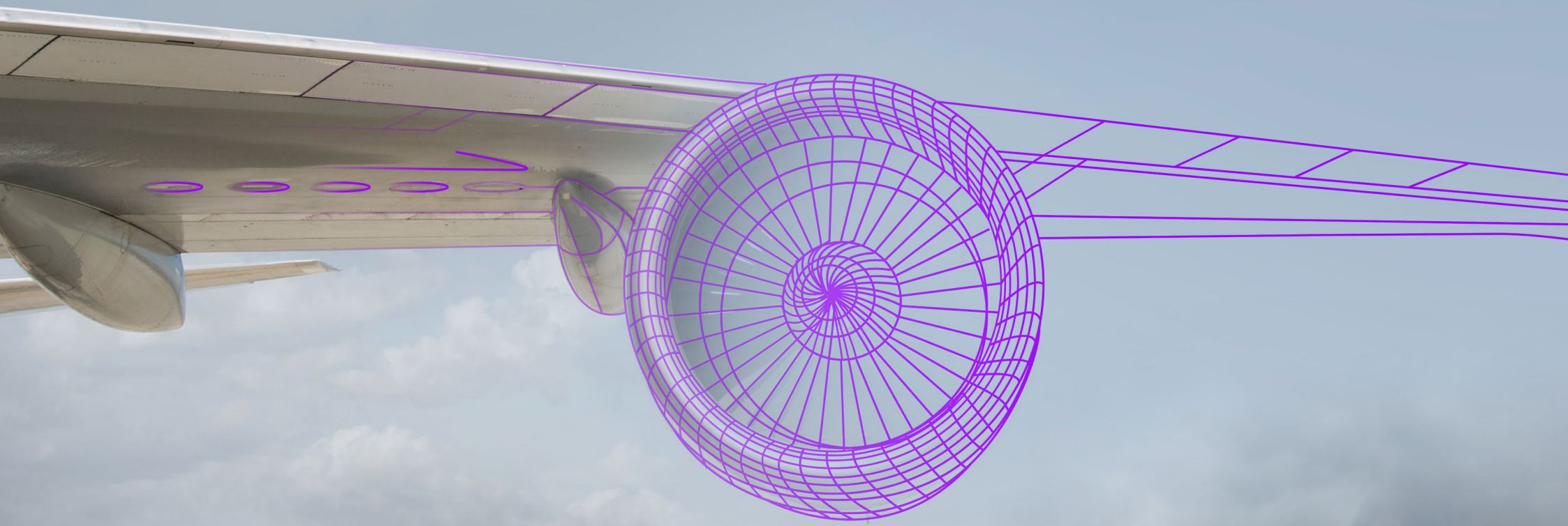
The study revealed that, for the 25 technology types that were included, 91 percent of insurance Leaders are extremely effective at working with cross-department teams that combine IT and business to create customer-centric solutions. The figure for insurance Laggards is only 44 percent.



HOW TO GET OVER THE BAR

2. BREAK DOWN TECH SILOS AND ESTABLISH A TECH ECOSYSTEM

Accenture research into enterprise agility notes that the entrenchment of silos in many insurance companies demands an enterprise-level shift towards agile technology transformation—truly agile firms are twice as likely as the average financial services organization to achieve top-quartile financial performance (55 percent vs. 25 percent). Where silos exist, the difficulty of scaling severely hamstrings technology's revenue growth potential.



3. MODERNIZE LEGACY TECHNOLOGY BY LEVERAGING THE CLOUD AND DECOUPLING THE IT STACK

Leaders create agile IT systems that reduce dependencies within the IT stack, decoupling data from hardware and applications. Seventy-six percent of Leaders in our survey agree that decoupling the entire IT stack is a key step towards adaptable systems. Insurance Leaders adopt IT earlier, reinvest in the technologies sooner, and show higher levels of technology expertise than their competitors.

The research also shows that, on average, just five percent of Leaders opted against early adoption of the 25 technologies included in the study; the figure for Laggards is 57 percent. In the last five years, 93 percent of Leaders have increased their spending on innovative technologies and solutions, as opposed to 64 percent of Laggards. Leaders are better than their industry peers when it comes to innovation performance drivers and are therefore better able to scale innovation through their future-ready systems.

THE IMPORTANCE OF FOLLOWING THE RIGHT PATHS

What we find is that Leaders consistently know how to avoid the tempting but sub-optimal options at crucial decision points. Middlers sometimes succeed in doing so and Laggards fail most of the time. Tempting but sub-optimal choices are easy to execute and might even appear to be the default right choice—but that is precisely the trap. Leaders avoid these tempting choices and go for the hard but correct decisions across five decision points. We summarize these decisions points in the PATHS model (Figure 8).

The PATHS acronym represents Progress, Adaptation, Timing, a Human + machine workforce, and Strategy.

Wise decisions across these five dimensions enable Future Systems that maximize value. At each decision point in the diagram on the next page, the first two options are the sound choices that a Laggard or a Middler would make. The third is the more difficult, but optimal, Leader's choice. In other words, the decision that every insurer should seriously consider.

Figure 9. Investing in technology: Five decision points, three options, one optimal choice.

Decision points		Tempting and tough decision options
P	**Progress:** How extensively/broadly should we apply new technologies to evolve business processes across the enterprise?	Option 1: Transform low-hanging business processes e.g. customer-facing processes Option 2: Build innovation centers/hubs to transform multiple processes **Optimal Option: Reimagine business processes for the future and target multiple processes with the technologies**
A	**Adaptation:** How do we adapt our current IT investments to changing business needs?	Option 1: Patch legacy systems Option 2: Lift-and-shift to the cloud **Optimal Option: Decouple from legacy and transform with the cloud**
T	**Timing of Tech Adoption:** How do we properly sequence and map our adoption of new technologies?	Option 1: Experiment with new technologies on the leading edge Option 2: Double down on industry-specific, customized technology **Optimal Option: Identify fundamental (general purpose) technologies, prioritize their adoption in terms of timing and processes targeted**
H	**Human + Machine Workforce:** How do we activate and enable the workforce to use and be augmented by technology?	Option 1: Rely on traditional, periodic training about new tech (standardized classroom or online learning modules) Option 2: Individualize training, allowing employees to learn at their own pace **Optimal Option: Deliver tech-augmented training for working with technologies of the future (AI, XR and experiential, personalized)**
S	**Strategy:** How can we intentionally manage the intersections of business strategy and technology strategy?	Option 1: Allow business units to rapidly, and independently, address their pain points Option 2: Devise a technology strategy to explore ambitious business goals like new business models or adjacent markets **Optimal Option: Build boundaryless, adaptable and radically human IT systems that explicitly enable scale and strategic agility**

CONCLUSION: THE PATHS ARE CLEAR, THOUGH NOT ALWAYS EASY TO FOLLOW

The findings of our Future Systems survey come as welcome, if sobering news for the insurance CEO and management team whose enigma introduced this report. They confirm that the cause of the organization's sluggish growth is not under-investment in crucial technology, but rather shortcomings in the way these investments are planned and managed, how they are used to transform the workforce, and the corporate mindset that influences all decisions and behavior.

It is these actions and attributes that consistently separate the high-growth insurance Leaders from their peers, notwithstanding a strong commitment by many of the followers to invest in the same technologies which the Leaders are adopting. This difference manifests itself in billions of dollars in revenue growth.

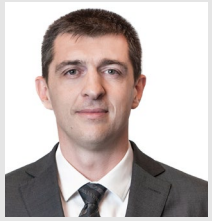
Failure to realize the expected return on investment—while others are succeeding—is unsustainable. Insurers need to gain a thorough understanding of the factors that underpin success, and then focus their efforts on emulating them. The good news, for our embattled CEO, is that the research has identified the barriers that are preventing him and his fellow Laggards from maximizing their growth. The bad news is that dismantling these barriers is neither quick nor easy.

However, the gap between the Leaders and their peers is too great, and the market is evolving too rapidly, for this to be anything but an urgent priority. Fortunately, the research has laid out a path for insurers to follow. The steps may be difficult and risky, but they are clear. The question that remains is the age-old one: if not now, then when?

HOW ACCENTURE CAN HELP

As part of its Future Systems study Accenture has developed a diagnostic tool that analyzes the status of an organization's return on technology investment and identifies the areas where remedial action would have the greatest and most immediate positive effect. This makes it relatively quick and easy to develop a fact-based roadmap to impact maximization.

We would welcome the opportunity to share with you our perspectives on technology investment and to conduct a Future Systems diagnosis. To hear more about how we can help, please contact one of our authors and get the conversation started:



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ABOUT THE RESEARCH

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