

THE CLOUD IMPERATIVE FOR INSURANCE



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Executive Summary

Historically slow to change and hampered by substantial technical debt, the insurance industry has gradually moved to action on technology enhancements in the last decade (spurred by the 2008-2012 financial crisis). Industry leaders are benefitting from early adoption of cloud technology. However, we estimate that 10 percent or less of the overall insurance industry's workload is currently running on public cloud platforms. That leaves most insurers without the cost and scalability benefits the public cloud offers and falling behind industry leaders.

Emerging technologies generally take significant time to implement and for the full benefit to be realized. For the insurance industry, cloud has long been more aspiration than reality. In our July 2019 Cloud Readiness Survey, only 56 percent of insurance company executives said they had developed and implemented a new IT operating model to support the transition to the cloud.¹ By March, that lack of progress was evident in the industry response to COVID-19. Insurers struggled to pivot to remote work and to continue meeting demands for sales and service.

Cloud adoption strategies may be nuanced depending on the insurer's size, market position or book of business, but the need to migrate to the cloud is near universal. Declining GDP threatens top-line revenues across the industry, and claims payouts are almost certain to increase. In response, the technology cost reduction to be realized through strategic cloud investment is the first place to look.

There is functionality that may help with the revenue pressure as well. COVID-19 is likely to have lasting impacts on customer behavior. The need for greater agility to create virtual agents and direct-to-consumer models at scale will only increase. The way to capture that revenue in digital platforms is through cloud-enabled digital customer and agent journeys enhanced by applied intelligence.

The combination of continued "compressive disruption" pressure on insurers, easy access to transformative cloud technology and recent exacerbation of macro-economic conditions now requires insurers to take bold action to stay ahead of their peers.

¹Accenture, **Cloud Readiness Survey in Insurance**, 2019

Industry Context

The Backdrop of Technology Disruption

As new technologies emerge, customer needs and expectations quickly expand outside the boundaries of traditional products and services. As a result, B2B and B2C industries alike are now engaging platforms and ecosystems to access new customer segments and ushering in a

disruptive wave of industry convergence. By applying advanced technologies, such as AI and IoT, industries can maximize agility in their customer-facing, middle- and back-office functions, reduce costs and optimize operations.

Insurance Industry Pressures

Legacy technology has dragged down the economics of the insurance industry for a long time. Policies written decades ago, some in COBOL and sitting on mainframes, remain on the books as long-tail exposures. This legacy “tech debt” is a major concern for the industry and one that can only be fully addressed with scalable cloud solutions. As our 2019 Cloud Readiness Survey report noted, insurers who migrated to automated operations on cloud saw IT run costs drop approximately 30 percent.

As insurers entered 2020, they seemed well positioned for growth in most markets. Global premiums had just reached their

all-time high of US\$5 trillion, and US GDP was expected to rise 1.6 percent.² However, the industry continued to face the classic pressures of “compressive disruption” with low growth, slowly declining EBITDA and increasing barriers to entry.

Since the COVID-19 outbreak, insurers have suffered a severe financial hit, with aggregate valuations dropping on average 20 to 30 percent across global markets.³ Three key challenges create a burning platform for insurers:

² Accenture research based on Swiss Re data.
³ Accenture research based on Capital IQ data.



Top-line revenue pressure:

Macro-economic declines in GDP and underlying risk are weighing down the top line, with disproportionate impact in some customer segments and lines of business (e.g., Small Business, Workers' Compensation).



Sales & service model disruption:

Traditional channels for prospecting, new sales/renewal (including Life Insurance medical visits), and service models through local agents and nurses have previously been advantages for large incumbents. Physical distancing has not only impacted their effectiveness for incumbents' business but have also leveled the playing field for attackers. Given the approximate historic retention rate of 85 percent of P&C premiums, an enormous pool of revenue is now in play as much larger groups of customers explore digital models.



Bottom-line profitability and increased liability:

Zero percent interest rates have further damaged investment income and profitability. Regulatory intervention is threatening margins and adequacy of loss reserves (e.g., demands to return premiums based on reduced usage, probes to extend Business Interruption and Workers' Compensation to offset COVID-19 impacts). In parallel, insurers have been forced to re-visit technology and operational security/resilience in the wake of abrupt disruption of sourced services.

Insurers face a difficult road ahead to combat this multi-dimensional set of challenges to their economics and operations. They also share in cross-industry challenges with a pressing need to enable greater agility across their organizations and adapt new ways of working.

Path Forward

Insurers must respond to these market pressures in order to navigate recovery and find pockets of growth in their core businesses and adjacencies. A cloud-powered strategy, tailored to the insurer's book of business and competitive position, can address multiple aspects of this challenging situation, enabling:

- **Growth Acceleration**
- **Data-driven Digital Transformation**
- **Cost Curve Transformation**

CLOUD-POWERED STRATEGIC BUSINESS RESPONSE



GROWTH ACCELERATION

Digital Attacker

Top 10 global life insurer launched a new digital insurer in less than eight months with a cloud-powered application suite, using three clouds in a cohesive, business-enabling technical fabric.

Platform & Ecosystem

Top 5 U.S. P&C carrier innovated beyond their core to offer families of seniors peace of mind with a digital platform deployed on AWS that enables wellness check-ins and easy coordination of tasks for everyone in the care circle.

Reinventing the Offering

Top 10 U.S. life insurer offering tracks health and disability data through a wearable medical device for a pay-as-you-live program that rewards the customers with up to 25 percent premium savings for good health behavior.



DATA-DRIVEN DIGITAL TRANSFORMATION

AI-led Claims

Top U.S. P&C carrier's next-generation AI/machine learning platform captures audio, video and images from the customer after an accident, providing real-time claim assessment, accelerating processing times by 30 percent and improving accuracy.

Digital Journeys

Top 10 U.S. Life insurer used the Advanced Customer Engagement (ACE) model to create a robust digital factory to enrich customer and intermediary experience while reducing operational costs.



COST CURVE TRANSFORMATION

Major speciality insurance brand's migration to Azure and transformation to a highly automated cloud operations model yielded a 30 percent reduction in IT run costs.

Growth Acceleration:

Defend and expand market share with new models for existing products and new platform/ecosystem models for new offerings.



Digital Attacker (SMB):

COVID-19 has had disproportionate impact on small/medium businesses and simultaneously increased receptivity to digital models. Insurers will need to re-architect their business model (i.e., digital attacker) with cost efficiencies to become more agile and fast-track product rollout for existing business risks (i.e., income protection/continuity) and services for new risks (e.g., cyber insurance wrap-arounds including security monitoring and restoration for SMBs moving online).



Platform & Ecosystem Offerings:

To expand revenue through cross-sell/up-sell, insurers will need to better understand consumer behavior in attractive demographic segments and connect with ecosystem partners to deliver platform-based services beyond traditional insurance products (e.g., Health + Financial Wellness for Millennials, Home + Health + Wealth services for aging populations).



Re-inventing the Offering:

Insurance demands are changing (declines in asset ownership, gig and contract work & usage, IoT instrumentation) and insurers must accelerate product design and market entry to address changing risks in market (e.g., liability coverage for autonomous vehicle manufacturers, Smart Contract + climate sensor for crop & Inland Marine products).

Data-driven Digital Transformation:

Drive digital transformation in the business, led by enhanced data disciplines for new business/renewal sales, service and claims.



Digital Journeys:

Insurers (most of whom continue to operate with local agents) face an amplified need to deliver remote/digital sales and service as more customers explore digital interactions. Insurers must move quickly, merging data and analytics with behavioral insights to understand the needs of customers and predict intentions based on interactive signals. Success of the designed digital journeys is visible and self-sustaining, based on operational metrics such as percent of new business and renewals bound in remote/digital model, percent reduction in service/operations cost and percent of interactions deflected to digital channels.



AI-led Claims

Claims represents approximately 75 percent of the economics of an insurer, and has traditionally been the slowest to embrace innovation (with some legitimacy, considering the conservatism required of the function). However, with new demands of remote teams and claim adjudication methods, this is an opportune time to contextualize deep analytic insights across industries (e.g., Automotive, Health, Life Sciences, Insurance) to AI-led claims and utilize modern data platforms to transform claims.

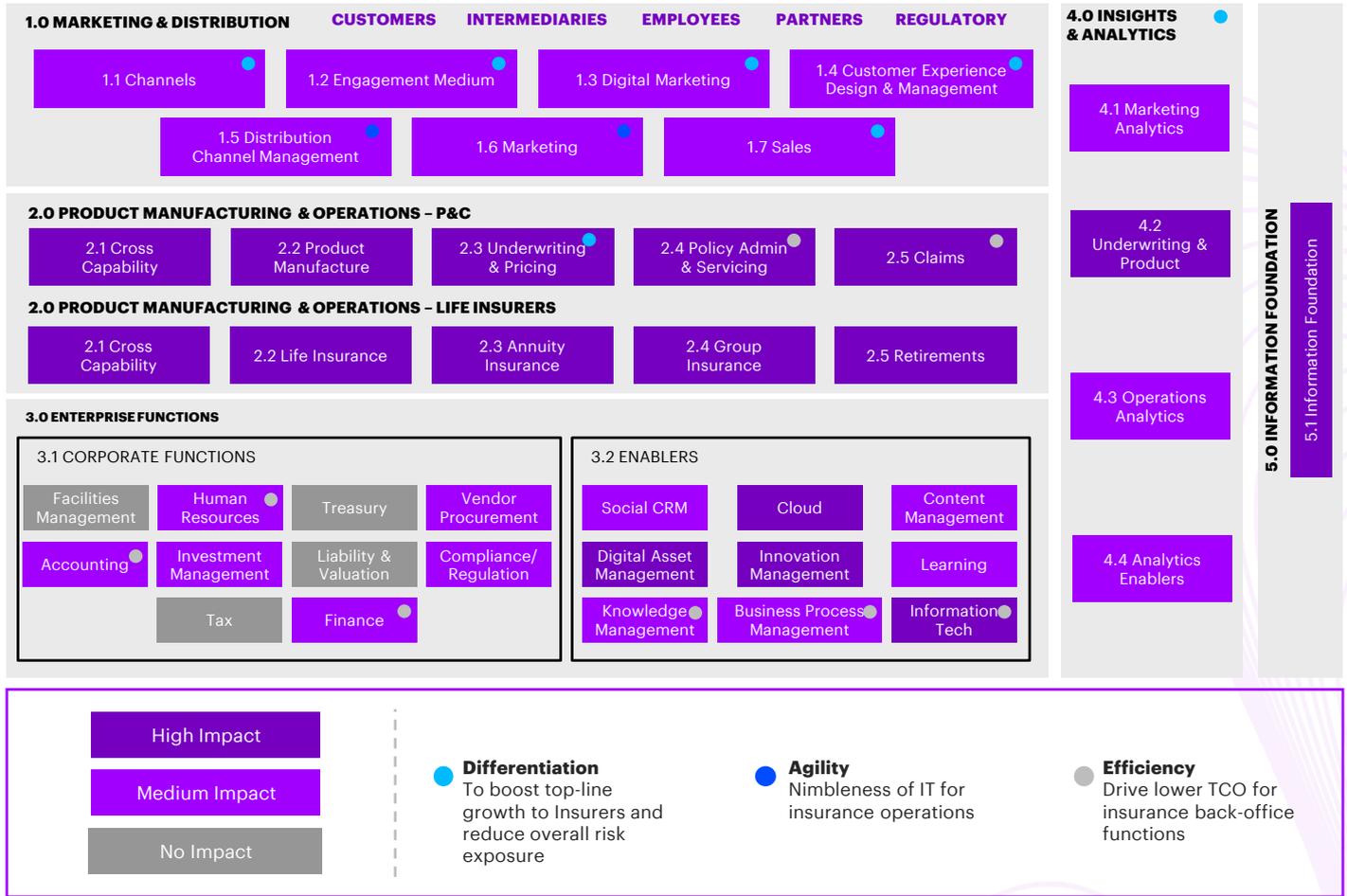
Cost Curve Transformation

What's possible? –

- Insurers delivering Combined Ratio results of approximately 85 percent.
- Expense Ratios of approximately 20 percent underpinned by modernized technology that brings Run/Change IT costs from 85/15 to 75/25.
- Through a combination of Smart Spend (providing program funding), Tech Modernization and Smart Op Model, insurers can identify and focus on strategic core capabilities while accessing enabling capabilities “as a service.”

INSURANCE – CLOUD VALUE HEATMAP

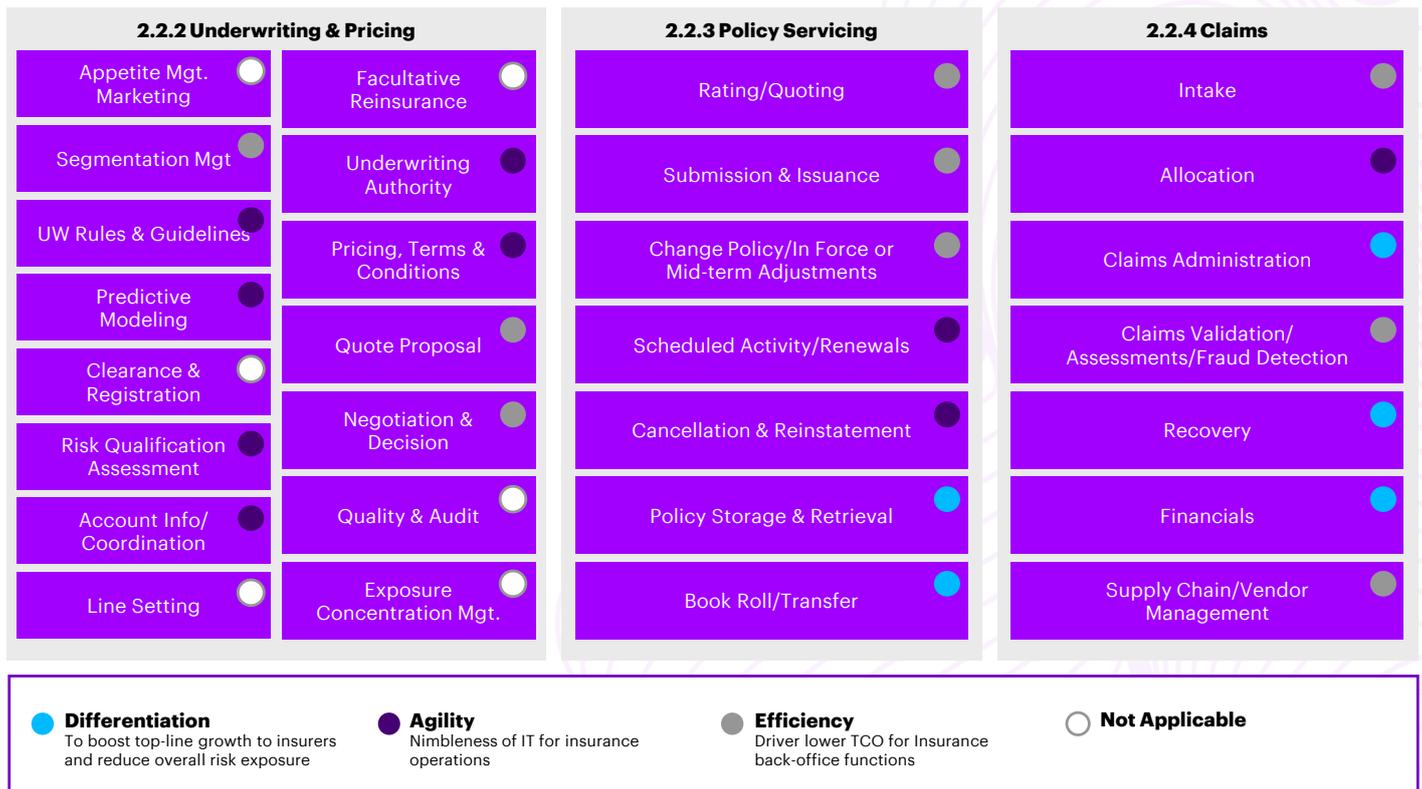
Benefits of implementing cloud capabilities across the Insurance business architecture



Impact is degree to which the operations of a function change as a result of emerging Cloud and InsurTech

INSURANCE – CLOUD VALUE HEATMAP

Deep dive into policy and claims



State of Cloud in Insurance Today



In general, insurers have been slow in migrating core applications to the cloud. Platform transition to cloud in key areas such as claims management is rare, and only a few insurers are taking advantage of cloud capabilities for their most important platforms.

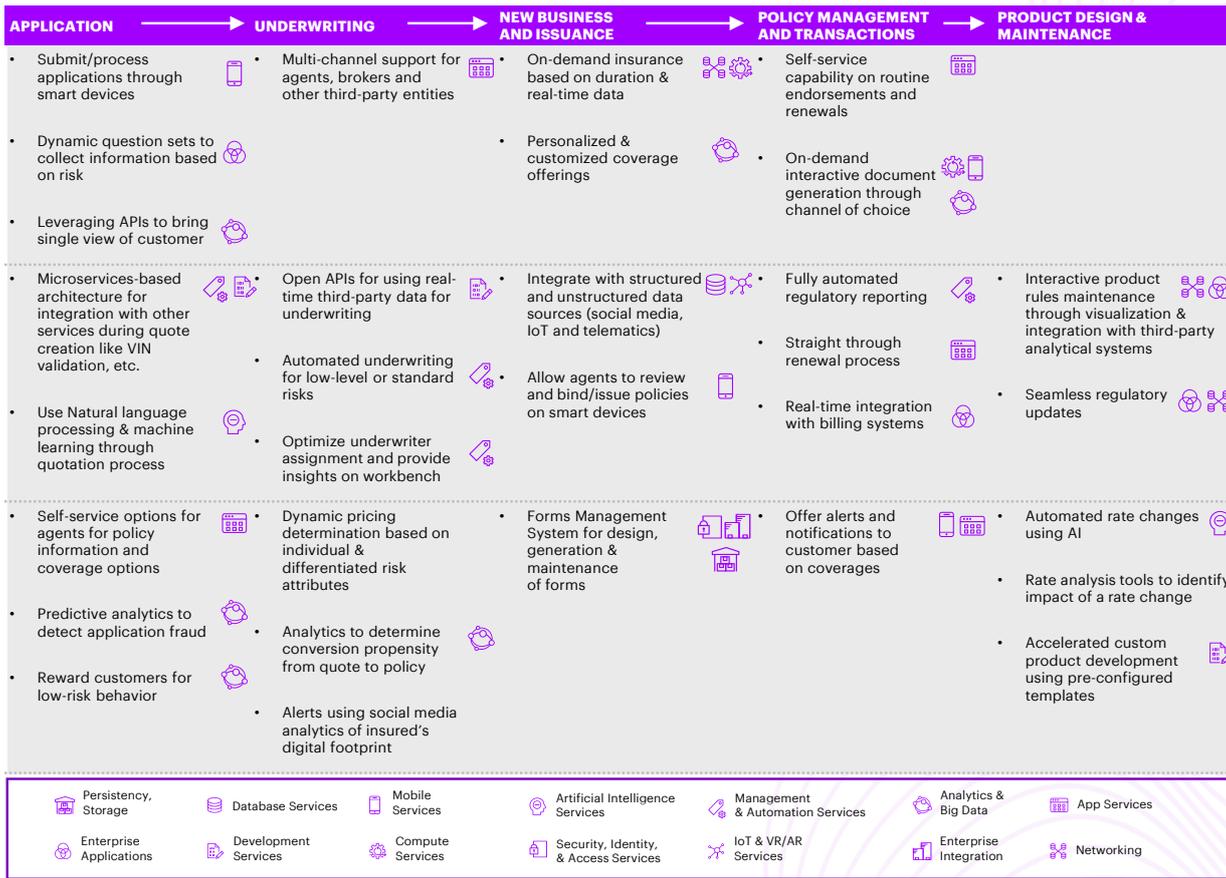
A SNAPSHOT OF INSURANCE INDUSTRY CLOUD PROGRESS

CLIENT	AZURE	AWS	GCP
Top 10 global life insurer	Y		
Top 5 global multi-line insurer	Y	Y	Y
Top 5 global insurance broker	Y		
Top 10 global multi-line insurer	Y	Y	Y
Top 5 global multi-line insurer	Y	Y	Y
Top 20 global re-insurer	Y		
Top 5 U.S. commercial insurer		Y	
Top 5 global commercial insurer	Y		
Top 5 U.S. P&C insurer		Y	
Top 5 U.S. life insurer		Y	
Top 20 U.S. P&C insurer		Y	
Top 10 Asia-Pacific P&C insurer	Y		
Top 5 U.S. P&C insurer		Y	
Top 10 global commercial insurer		Y	
Top 5 U.S. commercial insurer		Y	
Top 5 global insurance broker	Y		
Top 5 European multi-line insurer	Y		
Total	10	10	3

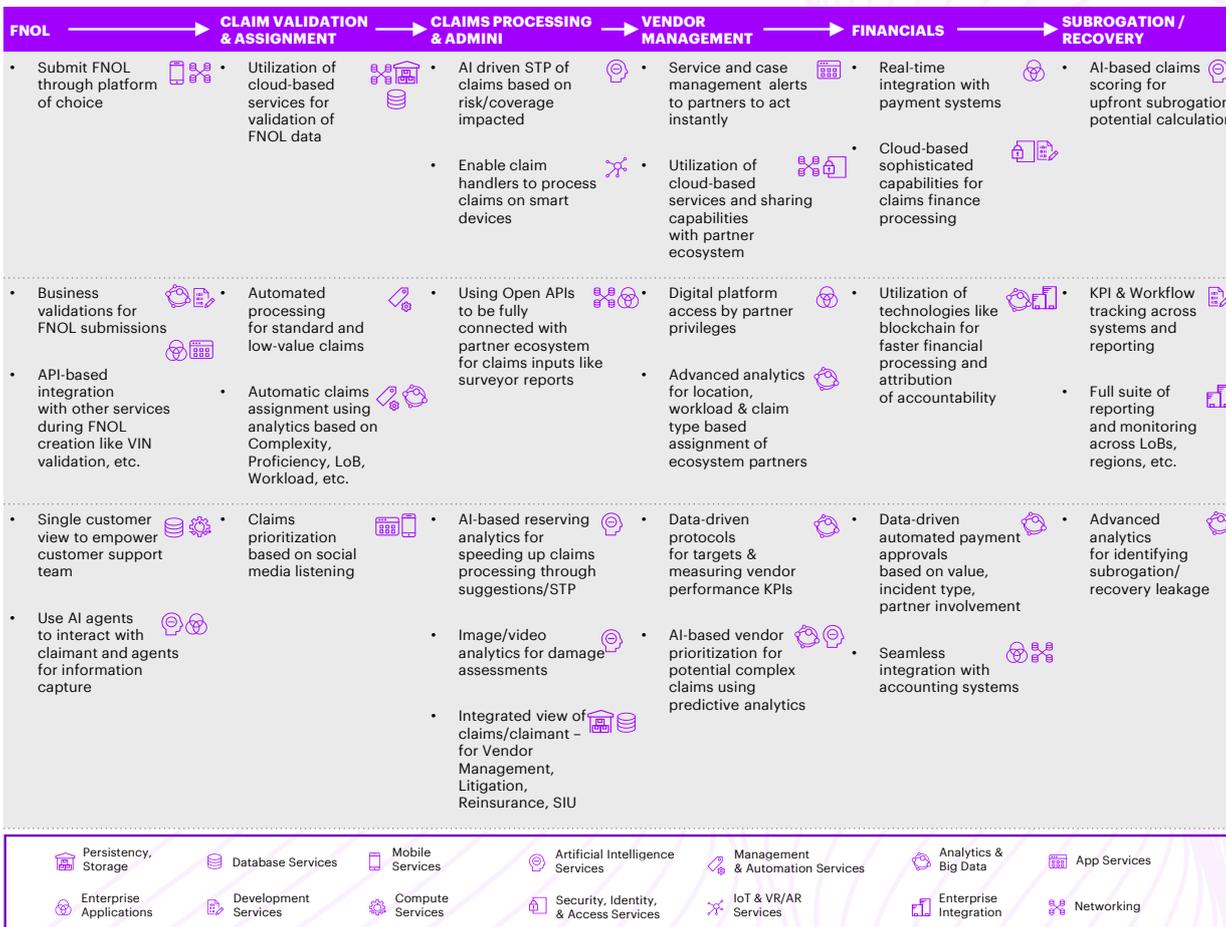
CLIENT	STRATEGY	ASSESS	TRANSFORM	OPERATE
Top 10 global life insurer	Good	Moderate	No/Little	No/Little
Top 5 global multi-line insurer	Good	Good	Moderate	No/Little
Top 5 global insurance broker	Good	Good	Moderate	No/Little
Top 10 global multi-line insurer	Good	Good	Moderate	No/Little
Top 5 global multi-line insurer	Good	Moderate	Moderate	No/Little
Top 5 U.S. commercial insurer	Good	Good	Moderate	No/Little
Top 5 U.S. life insurer	Good	Moderate	Moderate	No/Little
Top 5 global commercial insurer	Good	Good	Moderate	No/Little
Top 20 U.S. life insurer	Good	Good	Moderate	No/Little
Top 10 Asia-Pacific P&C insurer	Good	Good	Moderate	No/Little
Top 5 U.S. P&C insurer	Good	Good	Moderate	No/Little
Top 5 U.S. commercial insurer	Good	Good	Moderate	No/Little
Top 5 global insurance broker	Good	Good	Moderate	No/Little
Top 5 European multi-line insurer	Good	Good	Moderate	No/Little

Good Progress
Moderate Progress
No/Little Progress

MAPPING THE CLOUD OFFERINGS TO THE POLICY USE CASES



MAPPING THE CLOUD OFFERINGS TO THE CLAIMS USE CASES



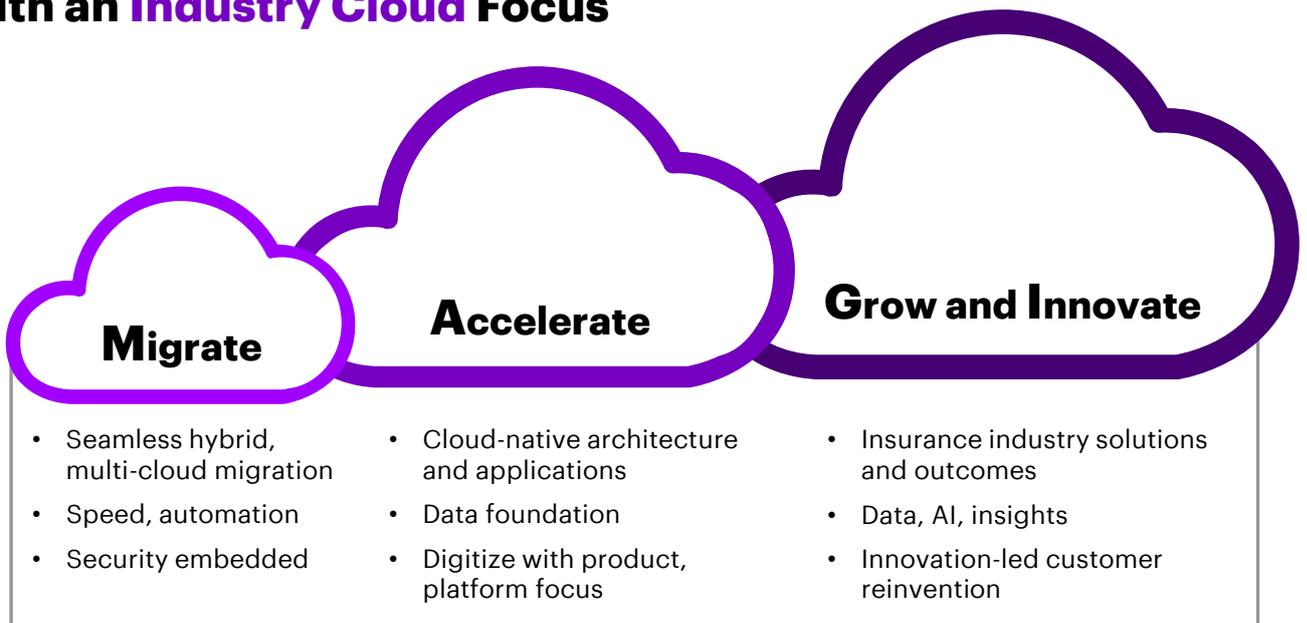
The competitive field is starting to separate. Our research suggests that insurers who made early and bold moves in cloud are already reaping the benefits. Leaders are on course to double their revenue base for the eight-year period between 2015 and 2023. Meanwhile, Laggards are likely to achieve less than half that increase.⁴

Value Case for Cloud Now

Why Cloud?

The economics of moving to the cloud are two-fold: direct improvements to technology costs and catalyzing the ability to capture the economic upside of business improvements.

Winning Formula:
Migrate. Accelerate. Grow & Innovate
 ... with an **Industry Cloud Focus**



Migrate

Migrating infrastructure and software to the cloud **reduces IT “Run” costs** and technical debt, and enables scalability on demand.

Accelerate

Building on a more robust cloud infrastructure, accelerate technology enhancements and impact basic efficiencies in business operations, **reducing IT “Change” costs and capturing efficiencies in business operations** (e.g.,

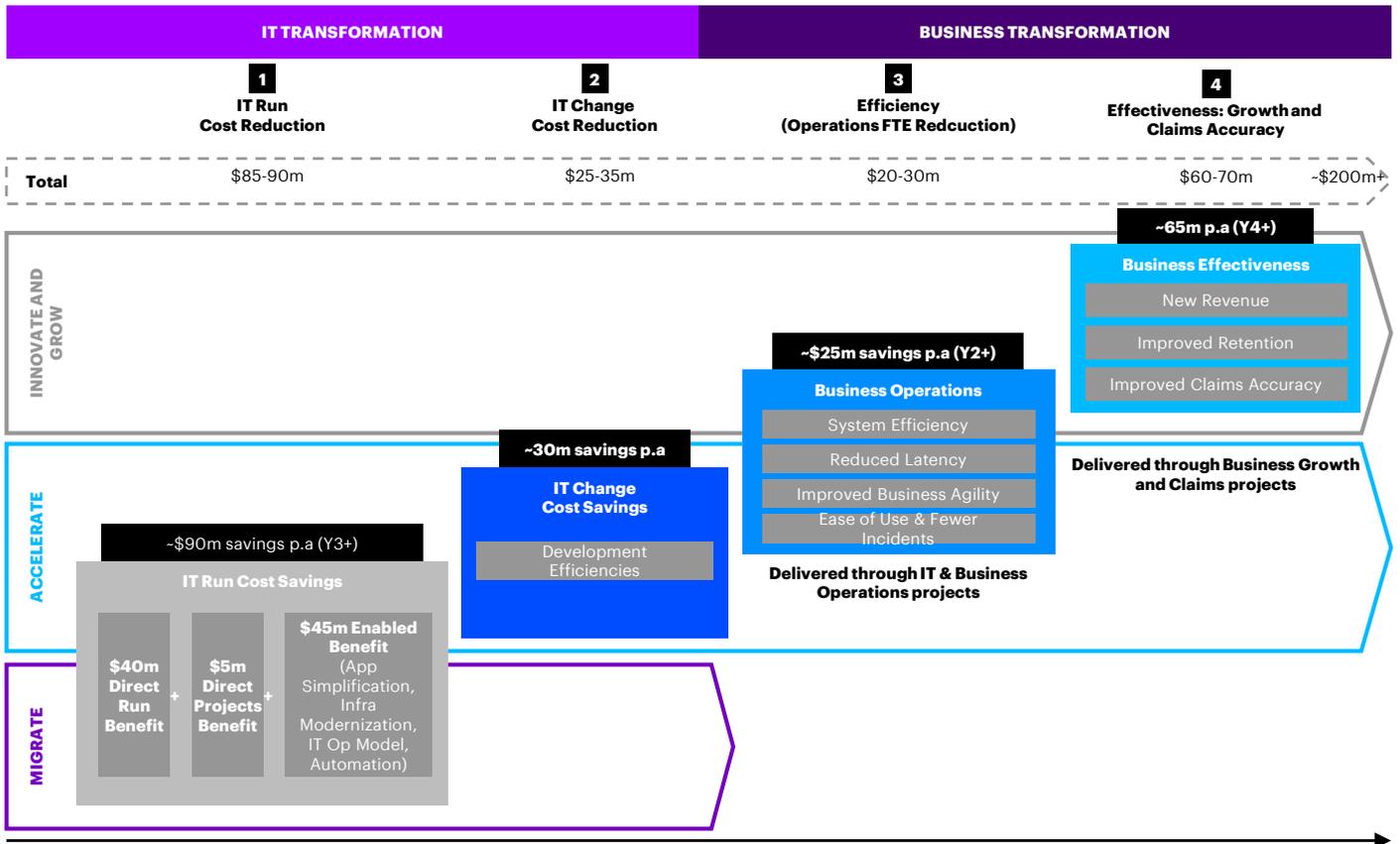
service center enhancements, reduced rework, reduced system lag and down times) demand.

Innovate and Grow

Platform solutions **accelerate and de-risk business improvements** with proven, evolving solutions—including claims optimization (Expense & Loss Ratio) and enhanced agent/employee journeys for renewal retention and new business.

⁴ Accenture, Future-ready Insurance Systems, 2020

CLIENT EXAMPLE: GLOBAL INSURER ECONOMIC CASE



Why Now?

The cloud value proposition has never been stronger.

- Cloud costs have decreased consistently in the past five years with continual price drops and structural pricing improvements.
- In parallel, the public cloud services market has expanded; approximately 30 percent CAGR in the past five years and expected to grow from \$300B this year to \$411B by 2022.⁵
- The major public cloud platforms are releasing several thousand new, innovation-enabling services each year with increasing sophistication and tailoring for specific industries.
- Security measures and regulatory compliance have fully matured and now offer stronger controls than on-premise solutions.
- Finally, cloud platform providers are now willing to **co-invest to accelerate** the journey in exchange for committed workload consumption. This is a critical enablement lever to capture.

⁵ Forrester, The Public Cloud Market Outlook: 2019 To 2022, July 2019; Predictions 2020: Cloud Computing, November 2019

INSURERS MAKING BOLD MOVES IN CLOUD WILL HAVE THE COMPETITIVE ADVANTAGE

Large U.S. Life Insurer	One of the Largest U.S. P&C Insurers	One of the Largest Brokerage Firms in the World	A Large U.S. Specialty Insurer
<ul style="list-style-type: none"> Partnered with AWS to innovate and meet the changing customer expectations Mass migration to AWS enabled the insurer to reduce its data center footprint to drive business transformation and operational efficiency Migrated production workloads to AWS, including mission-critical functions such as data analytics platform, customer portals and direct-to-consumer services Leveraging AWS's fault-tolerant, secure infrastructure for prototyping and developing new applications using AWS's breadth of functionality Built a data lake on AWS and Amazon EMR to support its anticipated data growth and analytics strategy 	<ul style="list-style-type: none"> Client along with Accenture created and launched a digital insurer in just 223 days Successfully assembled eight different cloud models into a cohesive business enabling platform Implemented 11 major applications including the fastest full suite of Duck Creek ever across three clouds Developed a multi-cloud, scalable platform 	<ul style="list-style-type: none"> Transformed its ability to identify risks by running their risk assessment algorithm instances on Amazon Elastic compute cloud By processing on AWS, recalculating policies took minutes rather than hours or days Using AWS enabled them to scale up their algorithm and deliver more granular assessments to customers 	<ul style="list-style-type: none"> Started a journey to cloud to be more agile and responsive Plan to migrate business applications over 18 months to Azure cloud Cloud capabilities will drive material cost savings through integrated application and infrastructure operating model



Moving to Action

More insurers are eager to mobilize and see the full benefit of cloud. However, many initiatives struggle to gain traction. It is clear that only strongly sponsored top-down initiatives created to help build a data-driven culture will achieve the full benefit cloud offers.

The journey will differ for each insurer depending on their existing technology architecture and their maturity state in modernization. To inform your cloud strategy we recommend drawing from the growing body of industry successes and precedent to inform your approach across key dimensions, including data architecture, security and compliance, best-fit platforms (single vs. multi-cloud), migration approach, etc.

The following guidelines can help further tailor your roadmap:

- Move non-core applications and functions to software-as-a-service (SaaS) on cloud.
- Rehost high-volume, scalable functions on infrastructure-as-a-service (IaaS).
- Establish a modern cloud-based data infrastructure to take advantage of data, AI and machine learning.

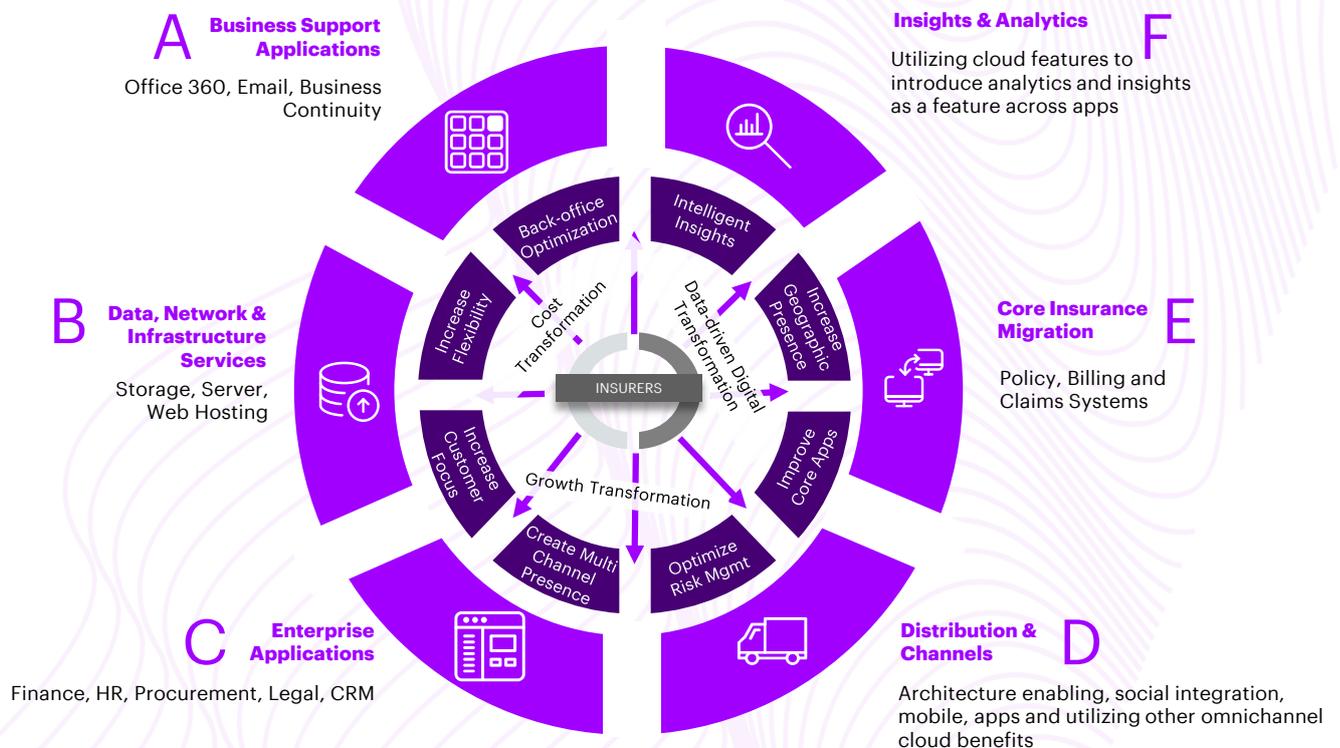
- Leverage platform-as-a-service (PaaS) and Microsoft, Amazon, Alibaba, Google (MAAG) innovation to power advanced products and services.
- Use a digital decoupling approach to decompose other legacy technologies; e.g., reducing mainframe data processing to reduce MIPS utilization.
- Perform rapid migration, guided by the value path that we can help define based on our industry experience.

A thorough analysis of value opportunities for the insurer's business helps complete the roadmap and prioritization. Early implementation of use cases that create significant workload consumption can assist in securing co-investment from cloud providers to help offset migration costs.



PHASE & ECONOMIC LEVER	CLOUD APPLICATION ARCHITECTURE PATTERNS	INSURANCE TECHNOLOGY AND BUSINESS USE CASE EXAMPLES	BENEFIT OPPORTUNITIES FOR INSURERS
Migrate: IT Run Cost	Data Warehouse & Reporting	<ul style="list-style-type: none"> Regulatory reporting Data warehousing Client reporting Business reporting 	20-60% - Technology cost reduction; operational efficiencies
Migrate: IT Run Cost	Storage Optimization	<ul style="list-style-type: none"> File share reduction Archiving and safe storage rationalization 	10-90% - Capacity planning enhancements; technology cost reduction; greater security
Accelerate: IT Change Cost	Web & Digital Applications (includes IaaS, PaaS & SaaS)	<ul style="list-style-type: none"> Client and agency facing portals CRM/CLM & enhanced client experience Internal policy and claims portal 	30-50% - Business innovation in line with digital agenda, time to market and agility, revenue focus
Accelerate: IT Change Cost	Data Sovereignty & Security	<ul style="list-style-type: none"> Product design Actuarial tasks Front office applications 	30-40% - Accelerated application delivery, greater security
Accelerate: Business Efficiency	Workspace Virtualization	<ul style="list-style-type: none"> Virtual workspaces and collaboration tooling Right-size tools for productivity and greater innovation 	10-30% - Time to market, agility and flexibility; increased employee productivity
Innovate & Grow: Business Growth, Claims Accuracy	Big Data Ecosystem & Analytics (includes Machine Learning/AI)	<ul style="list-style-type: none"> Analytics for usage-based insurance products Risk modeling and pricing cloud analytics for targeted marketing and advertising 	40-70% - Develop new solutions, targeted marketing/sales

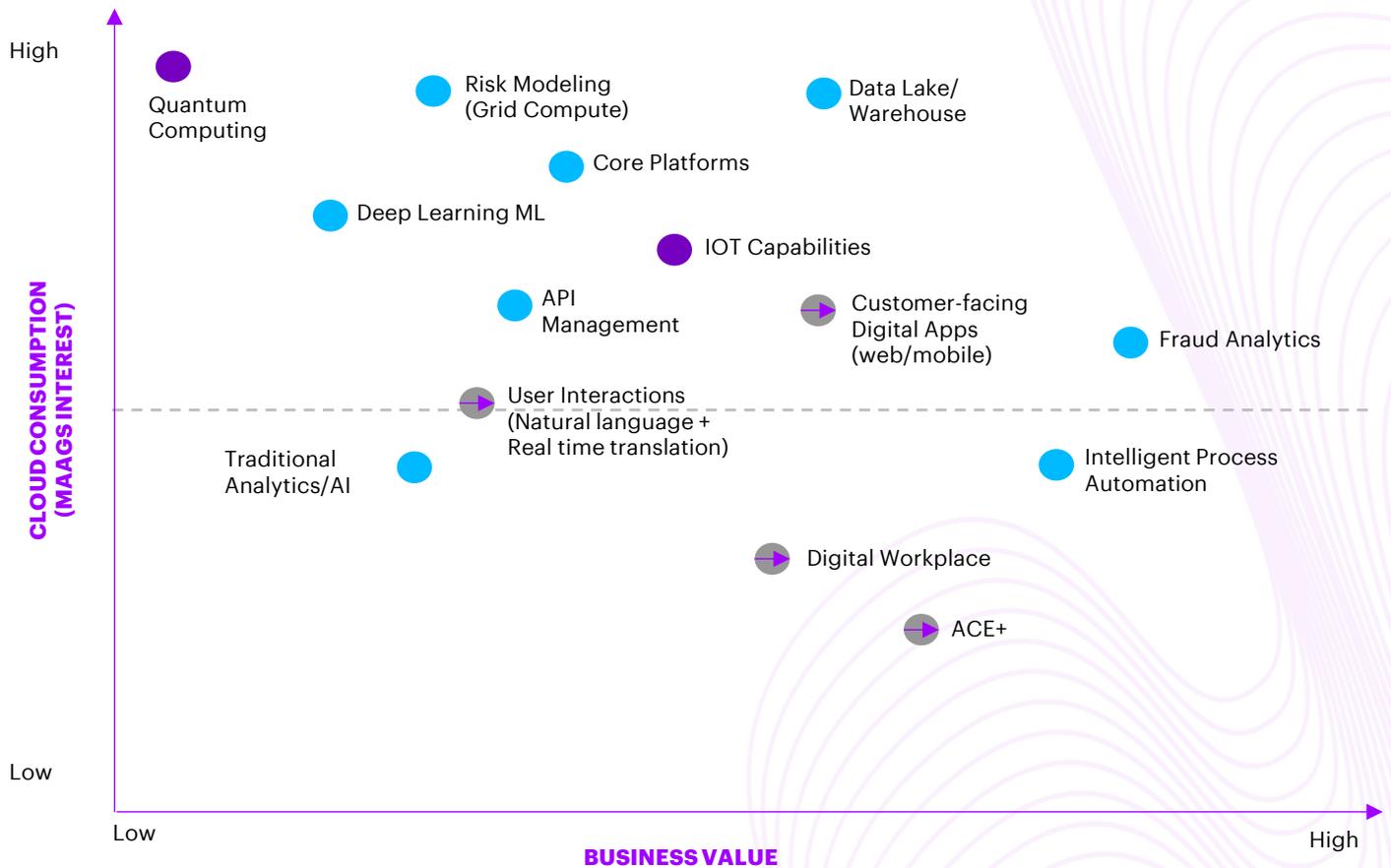
INSURERS CAN BEGIN THEIR CLOUD JOURNEY BASED ON THEIR BUSINESS PRIORITIES



Insurer Journeys		
Client 1 – Large NA Insurer B – A – C – D – E – F	Client 2 – Multi-line EU Insurer B – E – D – C – A – F	Client 1 – Large Global Insurer B – D – E – A – C – F

INSURANCE INDUSTRY CLOUD – USE CASE LANDSCAPE

Value Alignment Matrix



Comments

- Aligning business value and MAAGs interests can help maximize investments from platform providers to help accelerate the journey
- COVID-19 has shifted the prioritization of both business capabilities and increased the urgency for cost optimization
- Emergency Tech such as IoT enable disruptive plays with adjacent industries including autonomous driving and personal health monitoring

- Increased importance driven by COVID-19
- Digital Customer/Agent Journeys
- Modernized Data, AI/ML capabilities
- Emerging Technologies

The cloud will be both transformational and disruptive in the post COVID-19 world, offering savvy insurers improved scalability, efficiency and security. Insurers must move aggressively now on their strategy and transformation roadmap if they are to gain a true competitive advantage.

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