Digital Transformation in the Insurance Sector

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Chances and Challenges

Masterarbeit

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1 Introduction

“The digital transformation is characterised by the changes in corporate strategy, business model, processes and corporate culture caused by technologies with the aim of enhancing competitiveness.” (Eling and Lehmann, 2018).

Existing literature issuing the digital transformation in the insurance sector, primarily of a practice-related nature, provides a seemingly optimistic impression of the feasibility, in terms of a large application surface of the insurance landscape for digitisation measures (Münstermann *et al.*, 2017). In fact, the product type of insurance services, i.e. an intangible experience service standardised on large amounts of data (Keller *et al.*, 2018), initially confirms the qualification for the digital change (Catlin and Lorenz, 2017). However, the industry is considered strictly conservative indicating a complex transformation process adapted to the individual corporate strategy (Rogers, 2016). Riasanow *et al.* (2019) stresses the misleading use of the terms digitisation, automation and digital transformation.

For the established insurers, both internal and external factors are driving the digital transformation process. Depending on the (individual) scope of the topic, economic, cultural, regulatory and social challenges arise (Keller *et al.*, 2018). As the insurance market is supposedly accustomed to continuous change processes (Anchen, Frey and Kirova, 2015), industry comparison, however, emphasises the insufficient digital progress of the insurance sector (cf. Bieck, Marshall and Patel, 2014; Catlin and Lorenz, 2017), a practical research strategy is required. Yet the relevant aspects for the digital transformation are subjectively defined according to the respective research question (Camarate *et al.*, 2017). This study aims to standardize the heterogenous perspective on the insurers’ digital transformation process following a practical approach and to validate the distinctive insurance-specific opportunities and risks. It follows the concept to consider “(…) everything from data to people to culture” (Balasubramanian, Libarikian and McElhaney, 2018)

Purpose and Research Question

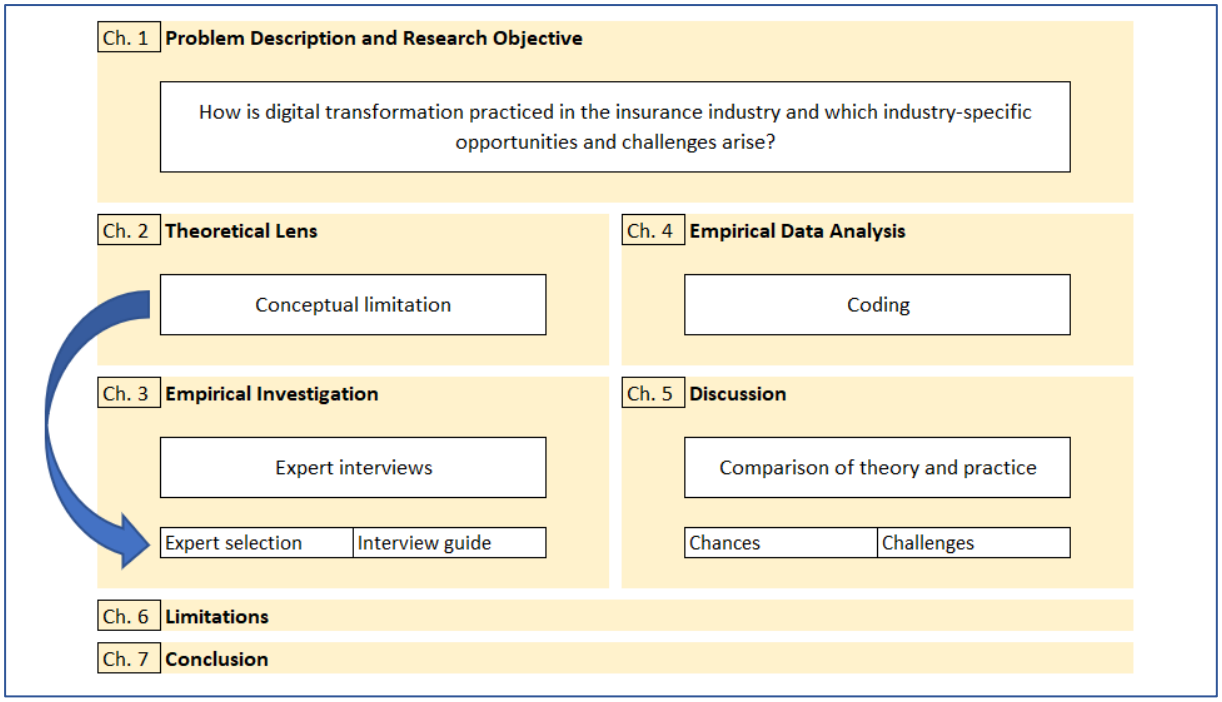
The superior purpose of the thesis is the scientifically based analysis of the potentials and challenges of (prominent) digitisation trends in the insurance sector form the insurers point of view. Further, based on the empirical results, it aims to develop a high-level framework of necessary adaptation measures insurance companies need to consider in order to digitally transform their business and potentially improve their performance. Particular attention should be paid to the (theoretically) feasible savings in costs and streamlining potential in the value creation process as well as the

adaptability of established business units to changing market conditions. Focusing on the following three sub research questions (RQ) will give a comprehensive concept to meet the current and upcoming challenges for insurers in the context of digitisation. Some of the RQ below are partially expanded in the empirical part and will be further addressed in practical terms within the discussion section.

RQ1. What are the key incentives for (established) insurance companies to become more digital?
RQ2. What are the most challenging factors and threats insurers need to consider when implementing digital business models, especially with regard to increasing competitive pressure?
RQ3. How do comprehensive digitisation measures impact the existing processes of insurance companies, with special reference to new competencies and the corporate culture?

Course of the Study
Following the inherent limitations above, Figure 1 describes the basic course of the study highlighting the collaboration between theory and empiricism:

Figure 1: Structure of the Thesis



Source: Own illustration.

The research question and its sub-questions in Chapter 1 provide guidance throughout the study. In order to create a content-related framework, which in turn is decisive for

the choice of experts and for the design of the interview guide, Chapter 2 attempts to cluster the central aspects of digital transformation. Subsequently, Chapter 3 explains the methodological principles of the empirical investigation, i.e. the assessment and analysis of qualitative expert interviews. The evaluation und summarization of the expert interviews form the core of Chapter 4, where the data analysis is carried out in two steps. Firstly, in the initial part of the coding process[1], the open coding, the data is examined separately from the content clusters of Chapter 2. Secondly, the categories formed are tailored to the previously in the theoretical part developed focal points of digital transformation in the insurance industry. The subsequent discussion of Chapter 5 examines the empirical results in detail as a benchmark to already in the literature existing concepts. The chapter concludes by summarising the results of the discussion. Under consideration of the research question, recommendations for action are derived, dealing with the last step of the data evaluation, the selective coding. The contribution closes with some unclarified final remarks as motivation and implication for future research and addresses again the research issue.

2 Theoretical Lens: Applications in Insurance

Aiming to resolve the previously mentioned gap between the theoretically large application surface of digitisation within the insurers' systems and processes and the present implementation progress in practice, requires a broad understanding of both, the internal insurance-specific process chains and a (basic) technical awareness of the main digitisation technologies. As previously described, there is still controversy about which elements can be subsumed under the term digital transformation (Wälder *et al.*, 2017). Consequently it may be difficult to address all potential drivers of the digital change.

[1] Following the coding procedure of Strauss (Strauss and Corbin, 1990).

7 Conclusion and Implications for Future Research

The success of the insurance industry's digital transformation is not a technical issue in practice. It is rather a multidimensional, long-term process embedded in a company-specific network. Consequently, the transformation capacities cannot be derived from the one-dimensional analysis of the technical application possibilities, but instead need to consider several correlated factors simultaneously ranging from culture to customer.

The strategy of interviewing predominantly experts with a comprehensive reference to digital transformation, i.e. internal consultants with management responsibility or external advisors with many years of project experience, is suitable for the defined research question. Due to the cross-departmental view of the interviewed experts, a comprehensive, coherent understanding from the perspective of (established) insurance companies was created, which addresses the essential dimensions of the digital transformation. However, concerns have been expressed about the danger of the experts' own overestimation and, consequently, a distortion of the true situation experienced by insurers today. A possible extension is the survey of the (technology-relevant) departments, which can better assess the digital transformation from an operational point of view. Furthermore, the topics of customer experience and product digitisation can be examined empirically by surveying representative policyholders

Issuing the digital transformation form an organizational perspective may also favour quantitative research projects by analyzing and evaluating (publicly available) information, e.g. the age structure of board members and the participation structures of established insurance players. Based on a substantiated theoretical concept, statistical correlations can be elaborated. Another aspect that future research can build on, is the selective limitation of the research contribution to individual insurance segments, e.g. motor vehicle insurance or property and casualty insurance (P&C), whereby the digital transformation may not be reduced to its technological component (cf. Filipova-Neumann and Welzel, 2010).

In general, the influence from other industries will increase strongly, both on the customer and process side, and will raise new research questions. For instance, how can established insurers manage to reposition their business digitally and increase the social attractiveness of their core business? What influence does the risk segmentation of clients driven by new technological possibilities have on the solidarity principle (i.e. the key principle of insurance cover)? What if the insurance business only operates online? And what if the individual availability of information and data is developed to

the extent that the assessment of risks makes the role of classic insurance policies redundant? These at first glance very distant questions can significantly change the insurance landscape in the future. Researchers especially from the academic field need to actively contribute to the question to what extent the potential of digital transformation will create added value for insurers and policyholders in practice.