



Tomorrow's COO: A changing role in a changing world

Part I: The world is changing

Over the course of the past few years, many life and annuity companies have found themselves taking steps toward the same starting line—identifying the need for a dramatic change in their business models. In the coming years, we will see who can sprint the quickest to transform, gain competitive advantage, and establish a strong presence for the future.

This journey reflects two themes: **changing**

demand driven by evolving customer behaviors and market risks, and **shifting supply** characterized by new service delivery models and entrants enabled by disruptive technologies. In an uncertain growth environment, characterized by flat premiums, historically low interest rates, and increased regulation, market participants are investing rapidly across a range of capabilities to enable differentiation and gain a competitive edge.

Shift in demand: Customers' expectations are no longer determined by their interactions with the insurance industry, but rather by their interactions with cutting edge service providers across retail, entertainment, and transportation. As a result, today's customers expect:

- **Greater personalization** – customized advice and pricing, supported with tailored and empathetic interactions

- **Improved access** – easy access to information needed to make purchasing decisions, and the ability to engage with service providers on-demand via their preferred channel
- **Modern sales experience** – an intuitive digital application, efficient underwriting, and seamless e-delivery of the policy, moving toward a near-instantaneous sales process
- **Security** – infrastructure that safeguards customer data and privacy

One significant factor driving this evolution in customer demand is the unprecedented digital propensity across various customer segments. Analogous to the growth of e-commerce from a little-understood niche in the late 1990s to ubiquity today, digital is moving from the fringes to the core of insurance operations. With internet penetration in the US population reaching a peak of 89%, nearly 50% of insurance customers surveyed list the availability of online self-service as factor when selecting a carrier.¹ Digital is becoming the preferred medium of interaction across the insurance cycle and, in turn, rising to the top of the insurance Chief Operating Officers' agendas.

The shift in demand also reflects a recent change in the underlying nature of risk and available customer data. The growth of both the gig and sharing economies has resulted in a greater opportunity to capture individual life insurance customers that may have previously had group coverage or no coverage at all. Additionally, today's customers are seeking on-demand access to products and services. Players are responding with nimble products, such as 'one-click' coverage of losses during discrete periods of time.²

Increasingly, COOs are finding themselves at the forefront of their organizations' push toward greater customer-centricity in the face of seismic changes in demand, technology, and data.

Shift in supply: On the supply side, established carriers and new market entrants are leveraging opportunities to define their future service delivery models in the face of:

- **Data** – With an explosion in the availability of customer data and third-party APIs, carriers are seeking to implement advanced data architecture and analytical techniques to better manage, measure, and mobilize for the future.
- **Tools** – Modern solutions ranging from electronic applications that enable straight-through-processing to engines that process an enormous volume of external client data for underwriting (e.g. electronic health records, health data from wearable devices, and increasing availability of personal genomics mapping) are changing the speed and accuracy of carriers' new business processes.
- **Automation and artificial intelligence** – The rise of cognitive and robotic process automation (RPA) enables insurers to streamline processes, expedite service delivery, and reduce errors. Meanwhile, bold insurtech start-ups are working to mature and commercialize artificial intelligence functionality.
- **Partnerships** – With the continued expansion of available vendor platforms and business process outsourcing (BPO) providers, carriers are seeking relationships with third-party administrators (TPAs) to streamline their operations and respond nimbly to changing market needs while retaining core differentiating capabilities within their businesses.

In light of these trends, it is not surprising that the total investment in insurtech globally has exceeded \$8.5B.³ Carriers are rapidly taking positions in this market via direct investments into, and partnerships with, insurtech start-ups.

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¹ Monitor Deloitte analysis, using sources including SBI MacroMonitor 2014-2015 Survey; Deloitte Buyer/Non-Buyer Study

² Chicago Tribune, "Buying insurance may soon be as easy as a swipe on a smartphone" July 11, 2016

³ Monitor Deloitte analysis, using sources including SBI MacroMonitor 2014-2015 Survey; Deloitte Buyer/Non-Buyer Study

Part II: The changing role of the COO

In today's vibrant insurance industry, carriers' operations need to support simplified products, an omni-channel customer experience, and a digitized platform built on the foundation of a nimble enterprise architecture that can accommodate a portfolio of ancillary insurtech capabilities. This evolution is prompting COOs to recalibrate their priorities, while maintaining a focus on cost-control and efficiency.

To position the organization for growth, a trailblazing insurance COO understands and embraces ways in which the role has evolved, to include serving as:

- **Technology authority** - As boundaries surrounding IT fade, notions of ownership of insurers' technology portfolio are also changing. Some carriers are struggling with data quality and governance, as well as large technical debt. COOs play a key role in setting and executing the vision for a modern enterprise architecture that can continue to support the legacy business, while offering enhanced data and analytics, real-time underwriting and transaction processing, a single view of the customer, and faster product launches crucial to generating new business.
- **Distribution pioneer** - COOs determine how to create long-term relationships with a new generation of customers, financial planners, and intermediaries, moving beyond reliance on an aging agent workforce and sales interactions that may be commoditized. Intrepid COOs make use of data exchange gateways such as

e-applications and digital agency technologies used to support straight-through-processing and streamline business interactions.

- **Product portfolio connoisseur** - Today's COOs target cost and efficiency KPIs when addressing commoditization trend driven by automation, which may be affecting the price competitiveness of some of their products (e.g., term life.) Simultaneously, they target customer experience improvements for other products that rely on customer personalization, which is only possible if the organization is capable of extracting and analyzing large volumes of customer and policyholder data, dovetailing with COO's technology authority know-how needed for advanced analytics.
- **Transformation champion** - With growing frequency, the COO leads the strategic business planning and transformation function, which translates corporate-level strategies into a set of discrete change initiatives. As a transformation champion, the COO is held accountable for driving investments that transform the business. As one example, recent cost data for life insurance carriers reveals that 53% of IT cost is discretionary spend, with the remaining 47% spent to keep the lights on.⁴ Discretionary spend can drive shareholder and policyholder value, even in face of resource constraints or a complex legacy systems environment.

⁴ Deloitte's 2017 LIONS study, using an overall median IT cost data for life insurance carriers

Looking ahead

The insurance COO's vision and propensity to adapt to change are now strategic differentiators in the marketplace. Effective COOs will seek to deepen their organization's capabilities across a variety of areas, striking the right balance between legacy businesses and innovative capability areas.

Deloitte offers a diagnostic designed to help COOs assess their organizations' capability gaps across cost, efficiency, and customer experience areas, and develop a clear path and detailed action plan to close these gaps. For more information, please contact us.

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