How Other Industries Have Handled Digital Transformation and Their Lessons Learned

Digital transformation. What does that phrase even mean? A quick search on Google will return a never-ending stream of definitions and explanations, each dancing around a concept that has swept over our industries. Some call it the “Fourth Industrial Revolution”; the newest wave of innovation that will enable our society to proliferate beyond the barriers of yesterday. Others take a more simplistic approach, calling it an improvement of business process with technology. No matter how you define it, the impacts are inescapable.

Like *The Jetsons* and their utopian, futuristic society, technology companies are working hard to create a world in which innovation makes the world a better place. A place where manual and mundane processes can be stripped away and automated by artificial intelligence, giving human operators an opportunity to engage in purpose driven work. Something that everyone aspires to have in their lives, and something we’ve seen evolve over the last century.

At the turn of the twentieth century, work was viewed as a necessity, an act that was performed to provide sustenance and put food on the table. As our industries shifted throughout the 1940’s and 50’s, the middle class was solidified and the mentality towards work turned from necessity to prosperity. Thanks to technological innovations of the era, the burden of life sustaining activities was lifted from the daily worker, allowing them to focus on their career and accumulate wealth. Consequently, this freed up time for thinking. As we reflect upon the last two decades, we can see the result of this thinking. Through thought, innovation came – ultimately propelling the mentality of the modern workforce beyond prosperity into purpose.

For many leaders, this is the deeper – often missed – definition of “digital transformation”. It’s about having a purpose driven organization and the adoption of technology is the mode in which this is achieved. For industries like insurance and finance, which lag in the adoption of digital transformation, there is a significant opportunity to revolutionize the ways in which these organizations become purpose driven. Throughout this article, we are going to unpack a series of questions that will help better understand this potential and what it means for the future of the insurance industry…

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What is a purpose driven organization?

Being a purpose driven organization doesn't mean you have to carry the torch for the latest social cause, leveraging your business as a means to accomplishing a grandiose goal. If this is the intent of your business, great. For others, their goal is to simply operate a business that provides immense value to its customers. For these businesses, creating a purpose driven organization is about transforming your existing processes and enabling your employees to expand their influence beyond the tactical – moving from ***what*** to ***why***.

There is a famous quote by Lou Holtz that says, "If your business isn't growing, it's dying." When we hear this, we often think about growing profits and revenue streams; prolific growth stories that are scattered across the headlines, telling stories of companies who completely revolutionized an industry and made billions along the way. Although these stories are important reminders of the power of innovation, they fail to capture the essence of this truth. More important are the stories of industry titans who failed to grow their processes, consequently sealing their fate as a dying organization that simply couldn't keep up. Many factors play into this reality, but most glaring is an inability to successfully adopt new technology.

Creating a purpose driven organization is about leveraging new processes and technology to enable your employees to continue to evolve their roles and impact on the organization. The most valuable asset to any organization will always be its people. For many leaders, the emphasis for changes in process is external; impacts to customers, revenue generation, cost savings for shareholders, and other measurable value driven metrics are used to justify the investment. A subtle and overlooked consideration, is the impact that these changes will have on their employee base – increased retention, higher morale, boosts in creativity, and increased efficiency/capacity are examples of these intangible impacts. Yet, since these are difficult to directly correlate to measurable outcomes, they are often dismissed in strategic conversations about ***why*** new technology investments should be made – a shortcoming of our decision-making matrices.

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What other industries have undergone “digital transformation”?

Nearly every industry has undergone some form of digital transformation. For years, and accelerated by COVID, retailers have been shifting from the traditional “brick and mortar” business model and, instead, adopted an e-commerce strategy that appeases their customers buying journey. This has given rise to technology giants like Twilio and Snowflake, which enable retailers to have better solutions for the storage and usage of their data, across all areas of their business. Other industries, like oil and gas, have seen hardware automation vendors deliver new technology solutions that provide seamless visibility to processing and supply chain considerations along their value-stream. These solutions address a series of challenges that have plagued these organizations for decades and offers substantial returns on their investment that will continue in perpetuity for many years to come.

Although many industries have been swept up in the wave of “digital transformation”, one of the most intriguing industries for insurance executives is financial services. Unlike other segments of the technology industry, financial services technology (*FinTech* for short) has disrupted a highly risk averse industry with innovative ideas that displace the long-standing technology solutions that institutions have death gripped over the last two decades. The team at Coatue Captial said it best in their latest review of the FinTech market:

“Those of us who have been investing and operating in FinTech for a long time share the unanimous opinion that disruptive technology companies are speeding past the incumbents to create new models of financial services giants.”

Statements like this come on the heels of a 20x rise in FinTech investment over the last decade. With the financial services industry estimated at a $16 Trillion market cap, software titans and startups alike are receiving financial backing from venture capital and private equity funding to build solutions that tap into this tidal wave of opportunity.

Accelerated by COVID, FinTech point-of-sale (POS) software companies recognized colossal growth as contactless pay demands became a necessity for retail and restaurant vendors. FinTech companies that support e-commerce and micro-financing at checkout saw huge surges in investment and market capitalization, as buying habits for consumers shifted to become predominantly online. All of this has culminated in the proliferation of the FinTech market and the adoption of technology across financial institutions and ancillary industries, so: ***What does this mean for the insurance industry?***

What does this mean for the Insurance Industry?

Much like the leaders in the financial services industry, insurance leaders are slow to adopt new technologies. With heavy regulations and oversight from governmental institutions, their pragmatism serves them well. Change introduces risk into the business, and sometimes the devil you know is better than the devil you don't. Yet, tipping the scales on the other side is the risk of missed opportunity. Insurance is increasingly competitive, with larger carriers expanding into additional revenue streams and using their brand recognition to capitalize on larger shares of the market. Mixed in with these competitive influences, is the use of technology to create an advantage and "out-operate" the competition. As the battle of the risks play out, insurers are left with a critical decision on whether to invest in new technologies or not…

Just as FinTech investment has grown by 20x over the last decade, Insurtech is no different. Coatue Capital's recent studies show that 59% of insurance executives are increasing their budget for technology investment in 2021. Private equity and venture capital funds are allocating significant portions of their capital to Insurtech investments, surging the market with new technology that will help transform the industry. Now, more than ever, there is an opportunity for insurers and brokers to digitally transform their businesses and enable their employees to become more purpose driven in how they interact with the goals of the organization.

New technology, like predictive risk scoring for underwriting and claims management, is designed to help insurers better assess their policy holders and expose large scale trends across the business. All aimed at reducing their combined ratio and driving better policies into the business. Other organizations, like AgentSync, are solving the challenge of credential management for agents and brokers. This streamlined platform solves a major compliance problem that carriers, brokerages, and agencies all grapple with, in a fully integrated point solution. And the list goes on – ***ClarionDoor, OWIT, Applulate, Hourly, Lemonade, Pie, MetroMile, and so many others***, have developed solutions that tie in with critical operational systems for insurers or are new insurance vendors that have capitalized on segments of the insurance industry with technology. The intent being to replace manual and mundane processes that can be automated through software.

Over the course of the next decade, the Insurance Industry will succumb to a deep transformation of their processes and ultimately, core competencies for operation. Technology will lead the charge in helping shape a purpose driven experience for employees, effectively "digitally transforming" the industry into the 21st century and beyond.

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