



HARNESSING THE POWER OF DIGITAL: LEAN MANAGEMENT IN INSURANCE

DIGITAL TECHNOLOGY AND ANALYTICS ARE TRANSFORMING THE COMPETITIVE LANDSCAPE OF MANY INDUSTRIES, INCLUDING INSURANCE — BUT COMPANIES OFTEN STRUGGLE ALONG THE PATH TO CHANGE AND FAIL TO HARNESS THE FULL POTENTIAL OF DIGITAL. INSURERS WHO MOVE SWIFTLY TOWARD THE NEW DIGITAL REALITY ARE FLOURISHING, WHILE THOSE WHO SIT IDLE WITH LEGACY PROCESSES ARE FALLING BEHIND. IN FACT, INSURERS IN THE TOP QUARTILE FOR DIGITAL PERFORMANCE ARE GROWING TWICE AS FAST AND ACHIEVING HIGHER PROFITABILITY THAN THEIR LESS DIGITALLY MATURE PEERS.

Given these high stakes, the principles of Lean Management—with a keen focus on effective digitization—can propel insurance companies toward becoming clear market winners.

LEAN MANAGEMENT IN A DIGITAL INSURANCE WORLD

More than 80% of insurance leaders believe digital disruption will transform how they interact with their customers and how they manage traditional processes and operations. Unfortunately, it is estimated that, if the right strategies are not adopted, nearly \$400 billion per year could be spent on digital efforts that generate below-expectation return on investment.

How can insurance executives manage the formidable task of infusing digital technology into their businesses without falling prey to wasteful, inefficient strategies? Lean Management can help. Its core principles are designed to deliver measurable results during a digital transformation, including growth, cost efficiency and business agility. *“Insurers can leverage Lean Thinking to quickly and effectively achieve material impact through digital technologies,”* said Seif Shieshakly, Co-Founder and Managing Partner of Four Principles. *“Lean techniques are recognized as the single most effective business improvement strategy to implement zero waste and achieve long-term, profitable growth—key outcomes for insurance companies undergoing digital-driven reinvention,”* he added.

Lean Management starts and ends with the customer’s perception of value: What they are prepared to pay for. In Lean Thinking, any process that does not add value is defined as waste and should be reduced or eliminated. Whether the focus is reducing lead time, managing the supply chain, improving quality, cutting costs, or boosting employees’ motivation, every change that Lean brings about satisfies one key criterion: It must benefit the customer.

A WIN-WIN-WIN FOR INSURANCE: BETTER VALUE FOR CUSTOMERS, LESS WASTE, MORE GROWTH

As forward-thinking insurers work to digitize their business models, the agile deployment of Lean principles can foster measurable results by maximizing customer value and minimizing waste. Many insurance companies will find that Lean Thinking can help them not only provide a better service or product to their end-users, but also make fundamental, sustainable improvements in profitability.

The application of Lean techniques enables improvement at each step of the digital insurance value chain, including:

- **Faster product development** – Take Chinese insurer Zhong An, for example. Thanks to the company's focus on quick, iterative product cycles, it can launch a new product with cutting-edge features in as few as five to ten days.
- **Better underwriting and risk assessment** – Underwriting becomes a continuous, on-going activity as machine learning and big data empower insurers to constantly manage risk. Principal Financial Group, for example, uses online applications, app-guided screening calls and multiple data sources to offer 48-hour approval of term and universal life policies. Similarly, Swiss Re relies on an automated underwriting platform called Magnum. *"For many [primary] insurance companies Magnum has become a key component in digitalizing the customer journey as many customers do not need to wait for an underwriting decision anymore but get a binding offer immediately. The growth has been phenomenal: in 2012, Magnum had already processed almost 2 million requests worldwide; [in 2016] this rose to over 10 million life insurance applications,"* said Francis Blumberg, Head of L&H Products Solutions at Swiss Re.
- **More efficient claims management** – Lean-driven digitization means insurers can leave behind high costs and low scalability. Online claims reporting, automatic claims processing and digital fraud detection reduce expenses and improve effectiveness. Lean implementation ensures all steps are focused and aligned to adding value, one piece at a time, removing all wasteful and unnecessary activities from the process.
- **Higher customer satisfaction** – Experts have found that digitization in the auto insurance claims process can raise customer satisfaction by between 10 and 15 points. Digital opportunities can also boost customer satisfaction with real-time support, speedy quotes and automated management of loyalty campaigns.
- **Personalized customer relationships** – The customers of today and tomorrow are more diverse and demanding. As Oliver Bäte, CEO of the Allianz Group said, *"Complexity used to be the opposite of efficiency, but now you can offer a high degree of specialization at a low cost. Now consumers can compare products and pick what they want."* Properly deployed digital assets can reconfigure insurers' ability to offer personalized products and usage-based insurance.

IDENTIFYING THE RIGHT ROADMAP FOR IMPLEMENTATION

“Implementation of Lean principles during an end-to-end digital reimagination can be extremely valuable for insurance companies,” said Four Principles Co-Founder and Managing Partner, Patrick Wiebusch, *“but it’s difficult to truly achieve ‘kaizen’ (continuous improvement) without the right roadmap.”* Implementation of Lean is not just tools, methods and best practice—it is a change in the entire corporate culture, embedding a new mindset from service agents to senior management, creating long-term changes in how an organization thinks and behaves.

Broadly speaking, a digital insurance transformation rolls out in three phases:

- 1. Assessment** — Each insurance company has its own unique digital profile. Before any changes can be made, it’s imperative to establish a clear benchmark of where the insurer stands in terms of technology infrastructure, customer journey and digital culture.
In this phase, many companies find it difficult to establish a holistic, all-inclusive view of what “digital” means for their business. If the initial conversations are limited to IT or isolated to a focus on digital sales, for example, implementation efforts can be meaningfully hindered. To complete an assessment of adequate breadth, the right business units, influencers and stakeholders must be brought to the table.

- 2. Design** — Here the insurer maps out opportunities and formulates plans to make digital changes. The design should include clear, specific targets for strategic and financial initiatives, and also include a monitoring element which tracks progress and performance.
Design can be the most stressful phase for company leaders, who acutely feel the risk of moving too slowly yet also need to balance the danger of an overly aggressive digital agenda. Lean Thinking can ensure a clear, consistent focus on delivering value for the customer and elevating business outcomes by identifying appropriate performance targets. While it can be (relatively) easy for an insurer to aim for “less waste and better customer experience”, companies should commit to establishing more precise targets. As Sprint Chief Digital Officer Rob Roy explained, “We had a great start to our digital transformation journey—budget, enthusiasm, energy. But we fell into the trap of not really understanding what a digital transformation was.”

Skilled Lean implementation partners can help insurers identify appropriately specific goals for financial, technological and employee-focused objectives. One US life insurer, for example, chose to focus on the following metrics during its three-year Lean transformation: Reducing cycle time and error rate, increasing productivity and customer satisfaction, and boosting return on equity. Lean implementation experts are also ideally positioned to construct appropriate sub-goals and timelines for completion.

- 3. Delivery** — In this phase, the insurance company builds and operationalizes its digital design. A bold, well-constructed strategy and proper strategy execution are equally important when implementing a digital transformation. Lean principles facilitate fast iterations and eliminate any unnecessary process steps or out-of-scope deviations. They also provide a framework for optimal, cost-effective resource allocation – a key challenge for leaders driving a digital transformation.

In addition, knowledgeable Lean specialists can help insurers identify pilots which most effectively harness the benefits of an impactful digital transformation. These quick wins generate additional momentum for the overall project. Fraud management, for example, has been identified as an area that typically represents a significant improvement opportunity from the application of Lean practices, making it an ideal candidate for pilot treatment. Alternatively, insurers can choose to start with claims processing, another area with potential for noteworthy results. A US P&C insurer, for example, began with its auto claims office. Thanks to a new team design and improved processes, wait times were reduced by 25% and productivity increased between 5% and 10%.

THE CORNERSTONE OF CONTINUOUS IMPROVEMENT

Throughout the process, insurers and their implementation partners need to work diligently on the front lines – that is, side-by-side with employees. *“Our greatest challenge is undoubtedly cultural: our employees need to get used to the agility we expect from them. That takes time,”* said Gert De Winter, CEO of Swiss insurance company Baloise Group. Not only charged with adding value to a service or product, employees are also best placed to identify wasteful processes or activities. For the best results, companies must emphasize a collaborative approach which empowers and motivates their workforce to become a key driver in long-term, sustainable improvement.

When your business is ready to start a digitally-powered transformation, Four Principles is here to deliver tangible Lean Management Expertise, not idle talk. We develop sustainable Lean Solutions across various industries throughout the world, including the insurance sector.

We implement. We are passionate about what we do. We are Lean experts. Learn more at <https://fourprinciples.com/>

GET IN TOUCH

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LEAN DIGITAL INSURANCE

In a rapidly changing world 'Lean digital' has become a must for insurance companies who want to survive. The emergence of InsurTech companies, the threat of BigTech companies (like Amazon, Google, Facebook,...) as potential new entrants are just two out of several factors forcing many insurance companies to 'go digital'.

Insurance companies who succeeded in becoming 'Lean digital' have achieved a sensible increase of economic performance.

IMPACT OF DIGITALIZATION

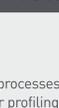
Insurers that implemented **digital sales and transaction automation**



Net Profit

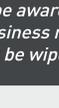
+40%

Insurers that implemented **advanced analytics, machine learning and IoT**



Revenue

+25%



Operational Cost

Insurers that implemented **digital direct marketing models**

-15%

Automation of main core insurance processes (such as underwriting, policy administration and claims management), allowing capture of data for profiling insured customers and conversion of this data into actionable insights, is FP's way to become 'Lean digital'.

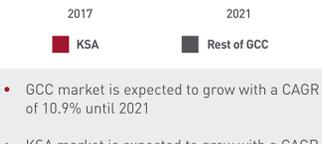
Insurance companies must be aware that the global market is rapidly changing and adapting to new digital business models. Who doesn't start a 'Lean digital' transformation will be wiped out by the competition.

GCC vs. KSA MARKET GROWTH

GCC and KSA insurance sectors are living a strong expansion period with a yearly double digit growth of 10.5% that will bring the market to reach a size of USD 39.3 billion in GCC and of USD 14.5 billion in KSA.

GCC vs KSA market growth rates

(amounts in USD billion)



GCC countries market growth rates

CAGR



- GCC market is expected to grow with a CAGR of 10.9% until 2021
- KSA market is expected to grow with a CAGR of 10.5% until 2021

- KSA shows currently the 3rd biggest insurance market growth in the GCC behind UAE and Oman who are benefiting of the recent application of the insurance mandatory regulation

Main drivers of growth in KSA



+49.5%

- Expansion of compulsory insurance coverage in the health segment (e.g. enforcement of small and medium size companies to insure their employees)
- Expansion of compulsory insurance coverage in the vehicle segments (e.g. enforcement of car owners to renew insurances or to insure used cars)
- Increase of insurance contracts due to women being allowed to drive
- Increase in the average premium per contract due to higher prices linked to stricter and more accurate risk assessment procedures

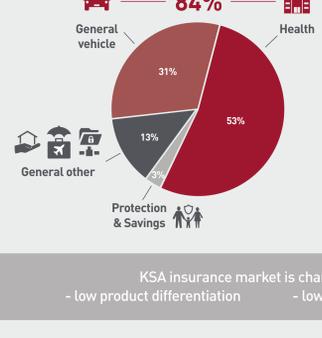
- The insurance sector penetration rate in KSA is 4 times lower compared to the global rate and 2 times lower compared to the emerging markets rate
- These gaps confirm the KSA growth potential for the upcoming years
- These gaps in KSA are due to:
 - low awareness among population with regards to insurance products in general
 - influence of current government welfare program (e.g. population still prefers to use the KSA national healthcare system)

Penetration Rates 2017

Gross Written Premiums
Gross Domestic Product



Characteristics of KSA market 2017



- 84% of the current KSA market is driven by compulsory insurance in the general vehicle and health sectors
- Only 3% of insurance products in the segment protection & savings (e.g. life insurances)

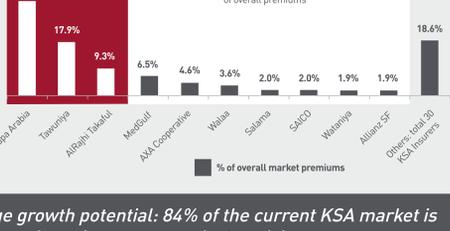
KSA insurance market is characterized by a low level of maturity:

- low product differentiation
- low product innovation
- price wars

Insurance Market Concentration 2017

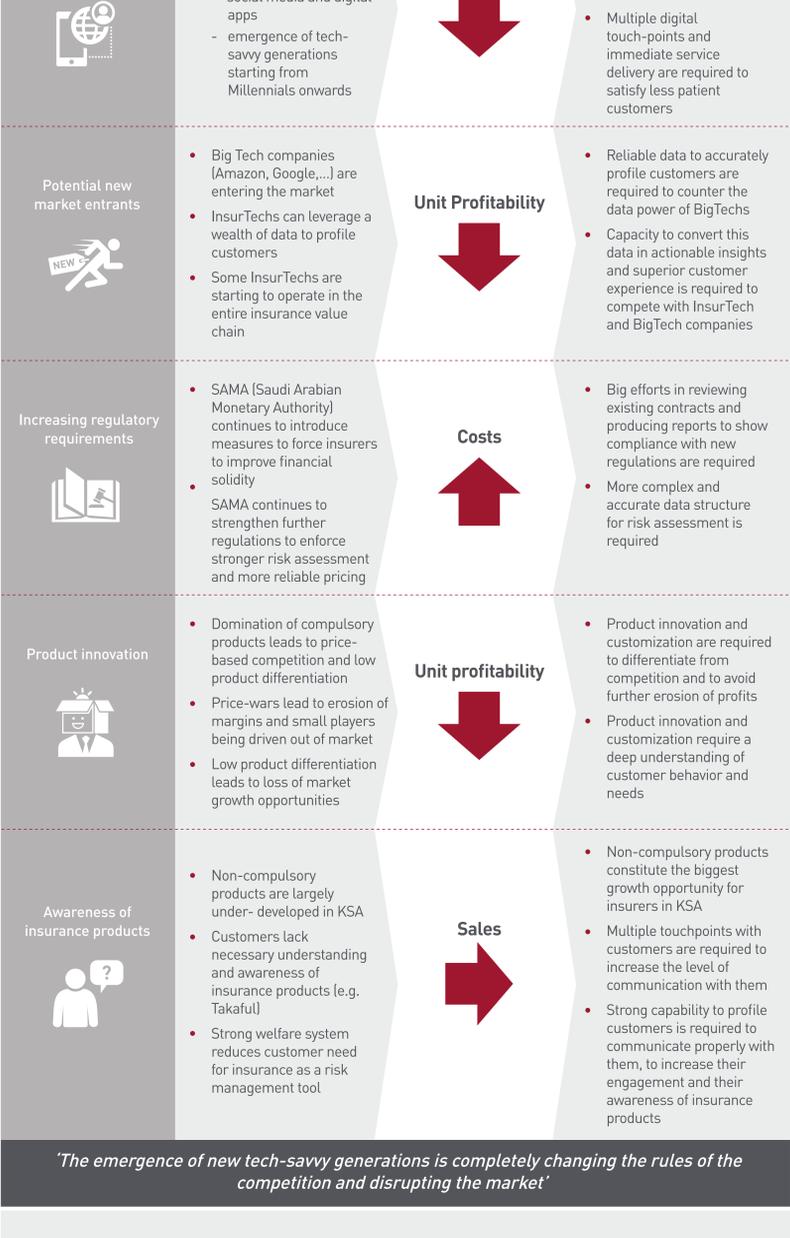
(first 3 quarters 2017)

- KSA insurance market presents a high level of concentration
- top 3 insurers (10% of the total) cover 59% of overall premiums
- top 10 insurers (33% of the total) cover 81% of overall premiums



'KSA market has still a huge growth potential: 84% of the current KSA market is driven by compulsory insurance products only'

PRIMARY CHALLENGES IN KSA INSURANCE MARKET



'The emergence of new tech-savvy generations is completely changing the rules of the competition and disrupting the market'

DIGITAL INSURANCE IMPLEMENTATION RESULTS

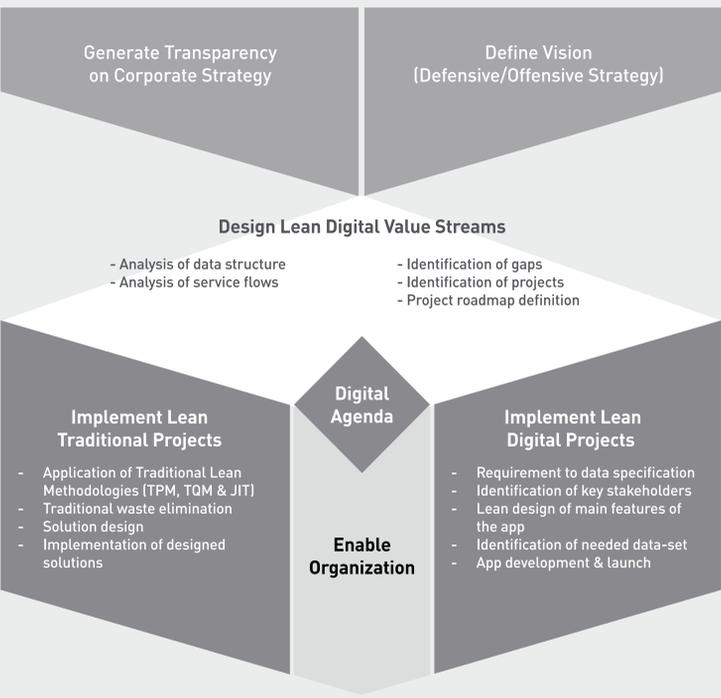
GLOBAL AVERAGES



'Lean digitalization brings to insurance companies not only sensible improvements of economic performance, but also radical enhancement of quality and delivery service'

FOUR PRINCIPLES' LEAN DIGITAL INSURANCE APPROACH

Our approach to a Lean Digital Insurance Transformation includes the generation of transparency on strategy, the definition of a digital agenda and the parallel implementation of Lean digital & traditional Lean projects while enabling the organization



'Four Principles has developed a structured approach to support insurers in their Lean digital transformation'

BENEFITS FOUR PRINCIPLES' LEAN DIGITAL INSURANCE APPROACH

Nowadays it is becoming imperative to exploit at the maximum level the wealth of data that digital technologies can produce and elaborate. Lean Digital Insurance is an approach that helps insurance companies to produce real-time effective data in a reliable way and to generate actionable insights for decision making and superior customer experience.



'Four Principles' approach is capable of supporting insurers to tackle current market challenges whilst expanding their customer base and improving their profitability'