Technology: The Insurance Industry’s Pivot Point

Harnessing social networking, telematics and SOA to meet industry challenges

Across the insurance industry, companies are adopting similar and consistent business strategies as they seek new ways to grow and prosper. Many of the strategies seek to improve the richness and effectiveness of interactions with customers, which today increasingly have a technology component. Social networking, telematics and service-oriented architectures (SOA) are all in the mix and driving this transformation. Facebook, Twitter and YouTube—to name three—offer the ability to improve customer interactions, communicate product information and generate more sales. Telematics may be larger still, as it introduces entirely new business models that blend insurance, technology and mobility. SOA is becoming key to managing the complexity of integrating legacy and new applications.

A.T. Kearney recently completed a study of emerging technologies to isolate opportunities for capturing strategic advantage. These trends in insurance are part of a broader landscape in which innovative technologies are significantly driving change across a wide range of functions and industries. Figure 1 on the following page highlights the main trends in five areas: consumer and employee experience (leading to innovation breakthroughs), applications and telecommunications (leading to growth and profits), and information management (leading to improved operations).

The study included interviews with more than 150 leading technology executives worldwide. The findings suggest that social networking, telematics and SOA are essential to growth and competitive advantage. The following discusses each in more detail, including how each technology could play a role in transforming the insurance industry.

Social Networking

Social networking sites and technologies have enjoyed significant growth in...
FIGURE 1: Technology trends can spur innovation breakthroughs, build capabilities and streamline costs

- Social networks
- Open innovation
- Ownership communities
- Viral marketing
- Customer feedback

- Web 2.0
- Mobile applications
- Location-based applications
- Interactive marketing and media

- Telematics
- Advanced analytics
- Smart products

- Ubiquitous broadband
- New enterprise service models
- Open standards
- Device portalization
- Convergence

- Collaboration 2.0
- Voice of employees

Source: A.T. Kearney analysis

FIGURE 2: Social networks and media strategies are used at key points in the value chain

- Leverage "open innovation" forums to gather ideas for new offerings
- Insurance companies scan social networks to interact with customers and funnel input to product development
- Ford’s open innovation forum directs user input to R&D

- Monitor social networks to assess the risky behaviors of potential customers
- Insurance companies use social network aggregators to get risky behavior data
- Pepsi uses Radian6 to collect information on social networks from customers and commentators

- Deploy viral marketing campaigns across large consumer bases
- Insurance companies (Allianz) create marketing material through viral marketing and contests. Use professional sites such as LinkedIn to market to B2B clients.
- Doritos’ viral Super Bowl campaign achieved 1 billion media impressions with little investment

- Use social networking to join individuals with common interests, allowing for targeted marketing and cross-selling
- Insurance companies use targeted campaigns for groups with specific insurance needs identified through online communities, including social sites for B2B
- HP increased sales of an older model laptop by 81% through its 31 days of Dragon social networking campaign

- Interact with customers in real time
- Insurance companies use these services for real-time customer support and feedback
- Comcast’s real-time support initiative leveraged Facebook and Twitter to increase customer service score

- Use social networks to publicly address negative information relating to claims and other processes
- Insurance companies use social media to counteract negative comments about their claims process. State Farm’s Kelly Thul: “…for someone who is upset with your brand, there is no greater treasure for them than honest outreach and an open mind from people within the company who care.”

Source: A.T. Kearney analysis
recent years, attracting more people across a wide range of interests. Facebook has more than 500 million users and its 30-and-older demographic is growing at double-digits. Twitter has six million active users, while Flickr hosts more than five billion photos. People of all ages, ethnicities, income levels and political views use social networks.

Such sites have changed consumer expectations, as people now generally expect the organizations with which they do business to interact online—answering questions, solving problems, and providing feedback on products and services. Figure 2 illustrates the potential impact of social networking on the major areas of the insurance industry value chain: product development, marketing and communications, sales, underwriting, customer support and claims.

More insurance companies are using social networks. Allstate and Travelers, for example, are using their Facebook sites to build awareness and engage with consumers who are in the process of assessing and choosing an insurance provider. State Farm uses its Facebook pages both to connect with customers and to improve customer service, which are major components of its ongoing customer strategy. Allstate is using its online Idea Portal as a way to capture ideas. Its Good Hands℠ Community page is where customers, partners and affiliates can submit product and sales ideas, and search information, allowing direct interactions with Allstate. Social media is also a means for connecting insurance agents and brokers to carriers, creating communities with the power to impact product development, sales and marketing. Progressive’s Facebook pages (featuring Flo) are arguably among the most popular in the industry and illustrate why combining social media with a popular ad campaign is a good way to communicate product information.

Some in the insurance industry are moving to the next step in social media—engaging their followers in “challenges.” Much like Frito-Lay uses Facebook and YouTube every year to challenge users to create a new Doritos commercial to air during the Super Bowl, insurer Aflac’s “10-Second Challenge” commercial competition generated more than 180 video submissions, which were watched more than 250,000 times on Facebook and on aflac.com.

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Social networking also provides cost savings opportunities. In underwriting, for example, some insurance providers offer lower premiums to banks that use social networks to identify borrower risk; the banks use software from SAS, among others, to determine applicants’ associations with known criminals and isolate patterns that suggest the potential for fraud. In the claims process, State Farm uses social networks and media to address and counteract negative statements. “...for someone who is upset with your brand, there is no greater treasure for them than honest outreach and an open mind from people within the company who care,” explains Kelly Thul, director of communications for State Farm, in her presentation “The Social Media Balancing Act.”

As social networking technology becomes more mainstream, we believe insurance companies can capitalize on the opportunity. Although the financial value to businesses is still not completely clear, the potential for improving products and services, and influencing target consumers, is perfectly clear.

Telematics

Already well established, telematics leverages the integration of mobile communications, vehicle monitoring systems and location technology to capture real-time data. Progressive’s Snapshot℠ is a third-generation technology that links insurance premiums to driving behavior and usage information gathered by an in-car “telematics” device. In the past five years, Progressive has expanded use of this product from 15,000 to more than 150,000 customers and plans to use Snapshot to increase safety and improve driving behavior.

Telematics refers to installing or embedding telecommunications devices
into cars to transmit real-time driving data, which insurers use to measure the quality and risks of individual drivers. The instruments for such changes are readily available. Vehicle tracking and global positioning satellite system (GPS) technologies are becoming commonplace, as are the telecommunications devices that allow us to be connected from almost anywhere.

It is not difficult to imagine how this could weave into the future world of auto insurance. The possibilities seem endless. Drivers could receive quotes for and buy auto insurance in real time by tapping on an in-vehicle navigation screen. Seconds after getting into a car accident, emergency and road services could be automatically activated, vehicle damage assessed, and the nearest repair shop contacted. Indeed, the customer experience is being transformed well beyond traditional insurance coverage—to real-time navigation, concierge service, safe driving tips, video-on-demand for the kids in the backseat, in-car or online feedback, and real-time vehicle diagnostics.

Telematics offers new, lucrative revenue streams, and far more accurate and profitable pricing models—bottom- and top-line benefits that would create a huge advantage for insurers. The advance of telematics in specific markets demonstrates some paths forward. Commercial fleets that monitor employees’ driving behavior via telematics can improve asset utilization, reduce fuel consumption and improve safety.

Other wider trends may create a tail wind for telematics. With state and local governments striving to improve fuel consumption, emissions and highway safety, many see telematics as part of the solution. California, for example, recently issued pay-as-you-drive (PAYD) regulations, which allows insurers to offer drivers insurance rates based on actual versus estimated miles driven. It’s a financial incentive to drive less.

And, as with most popular technologies, the next-generation of telematics technology is expected to be even better and less expensive. Among the latest technologies: An accelerometer allows insurers to assess drivers’ style and behavior, thus expanding the risk factors tracked from the current 40 or so to more than 100. As demand for accelerometers has increased, auto-

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**Becoming a Technology Innovation Leader**

While technology is acknowledged as the means to achieve increased growth and profitability, there is an underlying and far less-talked-about problem. Few business leaders trust their chief information officers (CIOs) to recognize the most powerful technologies in the market. Indeed, business leaders generally view IT as a constraint to growth—primarily due to the complex patchwork of legacy systems—and often execute technology work outside the IT organization. For CIOs to maintain their “go-to” status as business technology leaders, they must not only understand which technologies will be most effective in meeting the company’s core goals, but also learn how to harness the opportunities each technology provides.

When leveraging social networking, telematics and SOA, it is the CIO’s responsibility to frame the case for each technology and to lead the way. The innovative use of technology requires more than just technical know-how. A.T. Kearney’s recent Best Innovator and IT Innovation and Effectiveness Survey assessed the organizational attributes of innovation leaders and found the following to be crucial:

1. Leaders have an explicit technology innovation strategy that is enforced and derived from the overall corporate strategy
2. Senior leadership assigns internal ownership of ideas and matches promising ideas to appropriate business units or functions
3. Successful innovators use multiple criteria during the screening process, combining financial, market- and technology-driven factors
4. Leaders consider a greater number of ideas, review them more thoroughly and place big bets during screening to accelerate promising ideas
5. Leaders capitalize on collaborative relationships with external partners to generate more ideas, push them to market more quickly and control costs
6. Firms that value innovation recognize the need for partnerships between business and internal IT leaders and make both accountable for execution
7. Effective innovators recognize the need to improve their technology execution capabilities (specifically by including internal IT groups)
8. Firms at the forefront of innovation simplify their internal technology and seek high-quality data to expedite their ability to benefit from innovation
makers and device manufacturers have been able to push down the unit cost.

The need for increased connectivity and access (spurred on by the “always-connected” consumer) will spawn additional product offerings for insurers with the foresight to capitalize on them (see figure 3). Indeed, most technologies in the telematics ecosystem are not unique to auto insurance. Social listening, neighborhood protection portals and home monitoring could have an impact on how home and property insurance risks are assessed. Already, monitoring systems are available to adjust home temperature controls or automatically dispatch service providers should there be a water, heat or air-conditioning issue in a home.

Telematics technologies are being developed for healthcare and senior living products, including location-based alerts, health-monitoring, and family-tracking services that could affect how individual risk is assessed. For example, at Carnegie Mellon University, robotics teams recently developed “Nursebot,” a robotic nurse’s aid designed to remind the elderly about routine activities, also guides them through their homes and calls for help in case of emergencies.

As people become more trusting and willingly divulge more personal information—as has already happened in the banking and cell phone industries—and insurers improve their offerings, we believe it is only a matter of time before consumers fully embrace telematics.

Service-Oriented Architecture (SOA)

Service-oriented architectures, or SOAs, are considered among the most promising of today’s “hidden” technologies. SOAs, by definition, allow companies...
to make their applications and computing resources (such as customer databases and supplier catalogs) available on an as-needed basis, either via an intranet or the Internet. Essentially, it is the ability to provide Amazon- and eBay-like services internally to employees.

Based on a plug-and-play concept, SOA provides reusable software components across multiple technology platforms. It offers a new approach to software deployment while also tackling serious problems head-on, such as complexity and ineffective data integration (see figure 4).

This approach provides a consistent service and makes it easier to access data and to integrate both new and old content. Information and services are centralized and reusable, shortening development times and reducing maintenance costs. When a software service is needed (such as retrieving customer information) the user or system sends a request to a directory, which determines the proper service name, location and required format, and then sends back the desired output (in this case, customer information). Users and even other applications do not need to know the internal workings of the service—it’s the “what” that’s important, not the “how.” Nor do organizations need to own and maintain software; they just access the published business service over the Internet or network.

Not surprisingly, SOA is gaining traction in the insurance industry, primarily as a way to integrate large, dependable legacy systems and to use those systems in new ways, such as e-commerce. One insurer is using SOA to share customer information across business units, while also cutting costs by developing new software applications to capitalize on these services. Another is using SOA to integrate its legacy and new applications. Both companies understand that success in insurance (or in any business, for that matter) requires deliver-

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**FIGURE 4:** SOA can help resolve growth barriers identified in A.T. Kearney’s IT Innovation study

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<th>Which IT growth barriers are most relevant to your business?</th>
<th>5 = Most important</th>
<th>1 = Least important</th>
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<td>IT complexity</td>
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Note: SOA stands for service-oriented architecture.

Sources: IT Innovation and Effectiveness Study, A.T. Kearney, 2009
ing updated functionality while using existing infrastructure as much as possible.

Helvetia Insurance provides an excellent example of SOAs’ advantages. The Swiss company was struggling as recent acquisitions left it with incompatible computer systems and the inability to achieve its growth-through-acquisitions strategy. Today, its growth strategy is back in gear thanks to an SOA implementation that integrated the company’s legacy and new apps; SOA now serves as a platform for the insurer to launch new business applications and open new sales channels.

We expect SOAs to become more popular as more insurance companies consider their IT architectures as strategic assets.¹

Conclusion
Technology innovations, including social networking, telematics, SOA and beyond, will play a major role in determining success or failure in the insurance industry. Firms that effectively harness technologies and the opportunities they offer are destined to be among the industry winners, leading the way toward growth and prosperity. Companies that fail to keep up with the latest technologies—those mentioned in this paper and the last “next-gen” innovations that arrive on the scene—risk falling further behind and relinquishing their leadership positions. Make no mistake, the insurance industry is at a pivot point as future success is likely to rest on today’s technology decisions and strategies.

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