



NTT DATA RESEARCH PAPER | INSURANCE

Life and Annuity Insurers Shift Their Digital Transformation Into High Gear

NTT DATA study finds that in the first three months of the pandemic, life and annuity carriers significantly accelerated their initiatives by at least a year

MAY 2021



Table of contents

Digital acceleration: It's time for insurers to transform	3
Key study findings	4
Changing market forces require a pivot	6
Carriers' digital maturity still in the early stages	10
Insurtech and fintech partnerships are key to product agility	14
Obstacles to achieving digital transformation	16
Shifting through the five gears of digital acceleration	17
Conclusion	18
Research methodology and demographics	19

Follow Us:
[@NTTDATAServices](#)

.....

Connect With Our Experts:
mercedes.concepciongray@nttdata.com
tom.ford@nttdata.com

Digital acceleration: It's time for insurers to transform

Two words perfectly capture the new universal constant facing life and annuity (L&A) insurance carriers in 2021: digital acceleration.

Although most insurance companies have invested in digital transformation over the last decade, these moves sped up significantly in 2020 with the arrival of COVID-19. According to NTT DATA's new survey of L&A leaders, one year of digital transformation progress was made within the first 90 days of the pandemic lockdown.

The survey results appear to set the scene for what could be a dramatic turn in the insurance business as carriers adjust to changing consumer expectations, exploit new business models made possible by improving technology and adapt in a business environment roiled by new entrants and aggressive merger and acquisition (M&A) activity.

The January 2021 NTT DATA survey asked executives about their investments and progress in the new world of digital business platforms (DBPs) and ecosystems. DBPs are business frameworks that allow multiple business models to be built and supported on a single technical framework, and a digital partner ecosystem is a set of businesses interacting in a shared market for products and/or services. The results were from U.S. companies in life, annuities, group/voluntary benefits/worksites and retirement services. Comparing this new research with our February 2019 research, "Digital to the Core: Transforming Financial Services and Insurance in the New World of Digital Business Platforms and Ecosystems,"¹ it's interesting to see how executives reflected on the changes in business conditions over the last two years, the effects of the pandemic and the expectations for how the industry might evolve over the next one to three years.

Dramatic as it was, the speed of change might be understated in our research. We asked survey-takers about their digital transformations as experienced during the first 90 days of the pandemic (mid-March through mid-June 2020). In speaking with our clients during the latter half of 2020, we heard consistently that digital transformation had quickened even more



since then. Guiding a company through a digital journey is difficult, challenging, expensive work, so the ramifications of this fast-moving transition are only starting to be understood in full as you read this paper. Acceleration isn't just a technology story. For companies starting or evolving DBPs and ecosystems, their operational strategy significantly changed course between 2019 and 2021. Instead of relying solely on a portfolio of homegrown offerings sold primarily by internal and independent agents, companies moved toward selling a variety of products, including those offered by outside companies on platforms and in ecosystems.

Meanwhile, the industry was in flux. Insurtechs and fintechs continued to capture market share across many segments of the industry. Digital-native insurance and financial services startups provided innovative offerings to fill coverage and technology gaps ignored or not otherwise addressed by incumbents. These trends have sped up so far in 2021.

On the M&A front, venture capitalists, private equity firms and large companies from other industries acquired, divested and aggressively moved insurance assets across the chessboard as owners reassessed strategies. Insurers looked to acquire capabilities from other firms, especially insurtechs, while also selling off non-core businesses.

As chaotic as this environment is, however, many leaders realize digital acceleration is just another term for opportunity — new chances to connect with customers, forge alliances with innovative partners and rebuild organizations to be agile enough to capitalize on change. Financial services and insurance (FS&I) firms in

general, and L&A carriers specifically, are rebuilding for the new decade, and CEOs seem eager to exploit economic uncertainty to reset their competitive advantages.

From within the whirlwind of a global pandemic and the resulting economic upheaval, it's difficult to accurately assess how such a singular event will change an industry. But as results from the new NTT DATA survey reveal, fallout from COVID-19 was the third most significant issue facing insurance executives at the start of 2021 — following only new technology and changes in the competitive environment as top trends swirling around.

Key study findings

- 99% of L&A insurance executives believe in the need for transformational digital change
- Insurers added two new areas of increased focus to their to-do list: COVID-19 and environmental sustainability
- One year of digital transformation progress was made within the first 90 days of the pandemic lockdown
- 72% of carriers are shifting business models away from traditional “manufacture and distribute your own products” and toward digitally distributing other firms’ products and services and focusing on customer experiences
- 42% of insurers have created partial or full DBPs and 56% are in the process of planning and building these capabilities
- Obstacles to achieving digital transformation include technology architecture, developing an attractive business case and organizational issues

Accelerating digital transformation

Even as COVID-19 motivated the industry to stomp on the accelerator, the true and consistent driver of change remains not disease but digitalization. Let's dig deeper into three forces related to digital transformation.

New opportunities. Before 2019, carriers used technology advancements primarily to streamline operations and increase productivity. Now, they know these same technologies can help create new business growth. They're using digital tools, such as real-time data analytics, artificial intelligence (AI) and machine learning (ML), to focus business models and leverage market strengths, jettisoning non-core products and market segments along the way. In life insurance, for example, increasing consumer demand motivates carriers to streamline how they obtain underwriting information. For customers, exam-free and accelerated underwriting processes are among the changes that make it easier and faster to obtain a policy. Massachusetts Mutual Life Insurance Co. offers up to \$1 million in term life coverage without requiring a traditional health exam.²

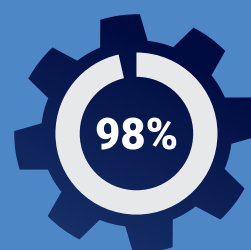
Technology integration. The last few years have seen a major strategic shift in the integration of core and distribution systems into DBPs. Aiding this move: the emergence of highly parameterized, cloud-based technology solutions from top vendors that allow carriers to stand up DBPs and extended ecosystems and to get to market in months instead of years — without having to rip out core systems.

New competitive landscape. Digital technology not only helps incumbents become more competitive but also arms savvy startups with the tools to find niche opportunities and develop compelling user experiences to outperform slower moving carriers. In just a three-week period in January 2021 Massachusetts Mutual Life Insurance acquired American Financial Group's annuity business for \$3.5 billion,³ Sixth Street Partners bought annuities company Talcott Resolution for \$2 billion⁴ and Allstate sold its life insurance unit to Blackstone Group for \$2.8 billion.⁵

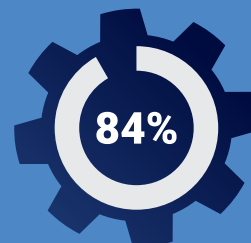
Time for acceleration of digital transformation

Q13. Is the integration of core and distribution systems into a DBP an important consideration for your company's competitive position in the next 3–5 years?

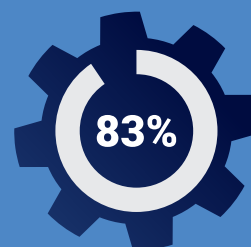
Q32. Please rate your level of agreement with the following statements about the competitive environment.



Agree integration of core and distribution systems into a digital business platform is important for their company's competitive position in the next 3-5 years.



Agree new digital business platforms represent a significant opportunity for insurers to reposition themselves in the industry.



Predict the list of financial services and insurance company leaders will look very different in 5 years.

Figure 1: Insurance execs say it's time to accelerate digital transformation

Changing market forces require a pivot

It's become clear that digital technologies, including AI, ML, blockchain, internet of things and data analytics, influence industry strategies at a fundamental level. We asked respondents, "Which trends will have the biggest impact on your company in the next one to three years?" and they ranked their top three choices (see Figure 2). Among the most significant findings:

Changing competitive environment. Executives list this trend number one, moving up from number three in 2019. It reflects the increasing (and perhaps unexpected) success of insurtechs and fintechs, as well as big tech firms, in taking away incumbents' market share. But it also reflects a heated M&A market, where companies are sold off, acquired or repositioned at an increasing rate. In 2020, for example, American

International Group⁶ hived off its life insurance unit so it could focus on property and casualty insurance while New York Life⁷ completed its \$6.3 billion acquisition of Cigna's group life, accident and disability insurance business.

Digital technologies. In our 2019 survey, this category ranked as the top trend. It slips to number two in this year's results. On the surface, this is a head-scratcher. Yet, it reflects acceptance that technology advancements are closer to becoming table stakes — that to remain competitive, companies need to build digital proficiency as a matter of course. In other words, how technology is used is much more important than the fact that it exists.

Q21: Which trends will have the biggest impact on your company in the next 1–3 years?

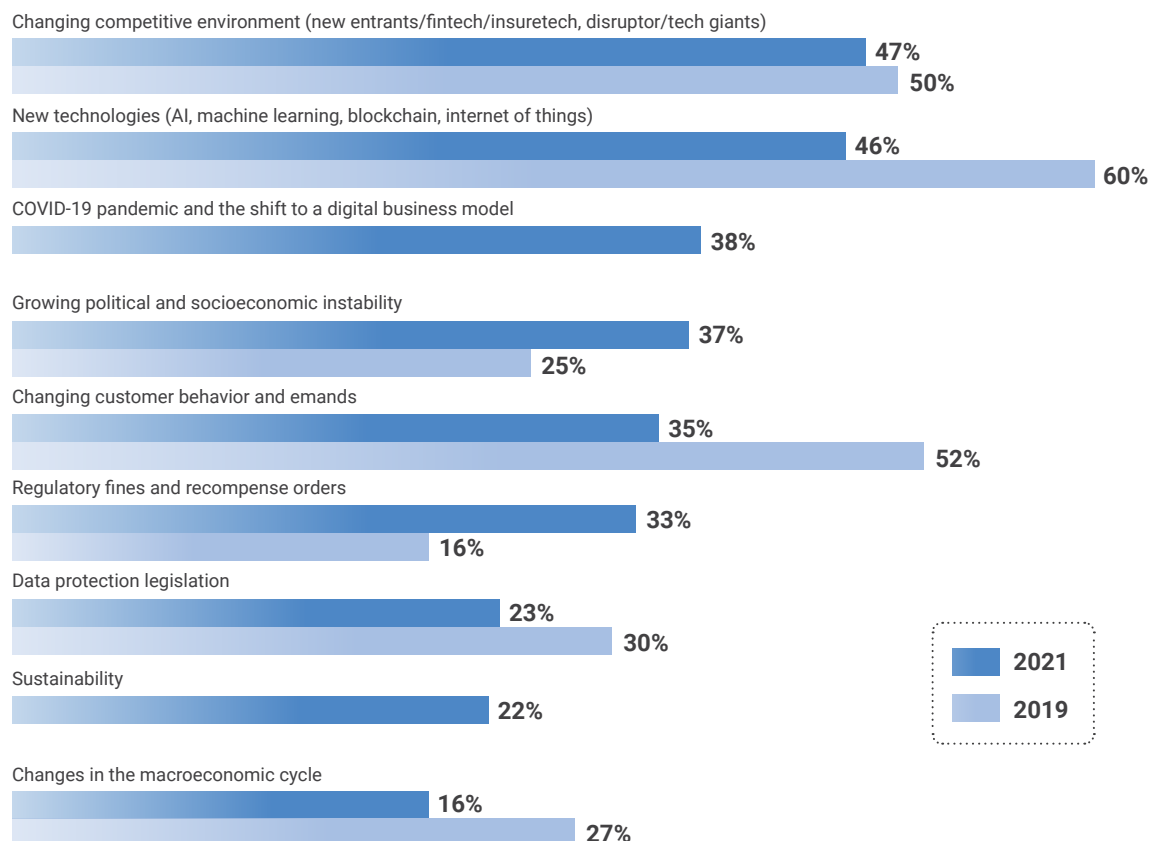


Figure 2: Top trends impacting L&A insurers over 1–3 years

Growing political and socioeconomic instability.

In raucous 2020, this trend was a big mover. Buried near the bottom of trends in 2019, it now ranks number four. We believe this reflects the uncertainty COVID-19-related chaos continues to inflict on global economies, although some estimates predict insurers will rebound in 2021 from a down year in 2020.⁸ And specific segments like life insurance might benefit as we all ponder our mortality. Of course, political divisions in the United States and elsewhere have added to the feeling that the earth is shifting under our feet.

Changing customer demand and behavior. A survey by the Life Insurance Marketing and Research Association (LIMRA) found that once people overcame initial COVID-19 lifestyle shocks, their interest in securing life insurance became top of mind.² Since meeting in-person with an agent wasn't an option, the L&A industry made progress in meeting higher consumer demand by leveraging the increase in web traffic and boosting direct-to-consumer marketing. In response to COVID-19, Principal Financial Group accelerated the use of a pilot initiative to enable the underwriting of disability insurance based solely on client's electronic medical records.⁹ "With the pandemic, medical providers are too busy to do labs and fluids, but the need for income protection hasn't diminished. So, that pilot has become a full deployment in a very condensed timeframe," says Kara Hoogensen, senior vice president of Principal's Group and Retirement Services.

Regulatory fines and recompense orders. Just as carriers are driving to modernize, so too are regulators adapting to digital trends such as electronic signatures, personal privacy protection and exam-free underwriting. The reported impact of regulatory fines rose from 16% in 2019 to 33% in 2021. This aligns with Celent's findings in "Significance of Meeting Regulatory Requirements on IT Planning."¹⁰

Sustainability. Along with COVID-19, environmental issues are new to 2021's list of top trends recognized by insurers. It's no surprise, given the devastating damage caused by the side effects of global warming, such as fires, freezes and flooding. Insurers are also discovering that environmentally friendly products appeal to consumers. Allianz promotes its Sustainable Solutions portfolio of insurance, asset management and assistance services that "improve peoples' lives, make a positive environmental impact or address climate-related concerns."¹¹ Offerings include electric vehicle insurance, water pollution liability and incentive packages for owners of green homes.

L&A insurers test new business models

And now we arrive at one of the most important questions in our survey. Given the market forces we've discussed so far, how are our L&A insurance leaders responding?

Q10. How do you see your company's current business model evolving?

Both develop and sell our own products

Full service 28%

Be the best provider of customer experience, and sell products of other FS&Is, not our own

Customer experience 27%

Become an online marketplace and sell many FS&I products on our own website

Online marketplace 15%

Develop the best products, and work with companies inside and outside of FS&I to distribute our products

Products 15%

Create a platform like Apple's App Store

Platform 15%

Figure 3: Market forces drive L&A insurers to change their business models



We asked survey-takers this question: “How do you see your company’s current business model evolving?”

The responses mark a major strategy shift over earlier surveys. As shown in Figure 3, 72% of respondents say their institutions are moving away from the traditional, vertically integrated business model of “manufacture and distribute your own products.” Instead, they’re transitioning toward selling their customers products offered by an array of providers — even niche insurance products created by competitors.

Contrast this with the 2019 findings, when 52% of global insurers claimed to follow a full-service model of developing and selling homegrown offerings. That number, at least for the L&A segment, has fallen to 28% in the latest survey. What’s more, carriers supported statements saying they’re looking to become an online marketplace (15%), create a platform similar to Apple’s App Store (15%) and “develop the best products, and work with companies inside and outside of FS&I to distribute our products” (15%).

A widespread belief exists among the majority (87%) of L&A executives that “the financial services market of the future will be dominated by companies that distribute (sell) multiple banking or insurance products.” Clearly, that future is not so distant.

Why the move away from vertical integration, which has been a bedrock strategy for most of FS&I since the beginning? As executives note in their observations about digital market forces, their world is changing, because technology and customer expectations are changing. Consumers want easy online access, more personalization and more choice. No wonder insurers say they increasingly focus on customer experience (CX) as a competitive differentiator. In the latest poll, 27% of respondents agree with this goal: “Be the best provider of customer experience, and sell products of other FS&Is, not our own.” Two years earlier, only 9% listed CX as a top-tier priority.

Expected DBP and ecosystem strategy benefits

Carriers hold high expectations for their digital investments. We asked them: "What are the top business benefits your company expects from investing in a DBP and ecosystem?" (See Figure 4.)

The answers match the industry's shifting strategy and additional capabilities to focus on the customer. The top three expected benefits are:

- Better CX (70%). CX has clearly captured the attention of top management and has only become more important since COVID-19; customers want more from online services (easier/cheaper/self-service) in all industries. We see carriers improving channels such as mobile, digitizing tasks such as renewals and payments, and using advanced data retrieval and analytics to offer customers bespoke products when they need them.
- Increased customer retention (63%). Attracting new customers is always an expensive proposition; it's much easier (and cheaper) to retain the ones you already have. The digitally savvy customer is attracted by convenience and ease of use. Platforms help with this by allowing carriers to appeal to users with a variety of products in related businesses, such as specialty insurance or lifestyle products. Giving customers what they want, when they want it, breeds engagement and loyalty.
- Faster response to market needs (62%). Historically, L&A carriers haven't been as quick to market as some of their insurance brethren. While homeowner's insurance is renewed annually, and thus needs constant rethinking, L&A offerings can stay on the shelf longer. But now, as carriers look to DBPs for increased revenue, they have to evolve the product much more often.

Q29: What are the top business benefits your company expects from investing in a DBP and ecosystem?
(Please rank the top 5 expected business benefits in priority order.)

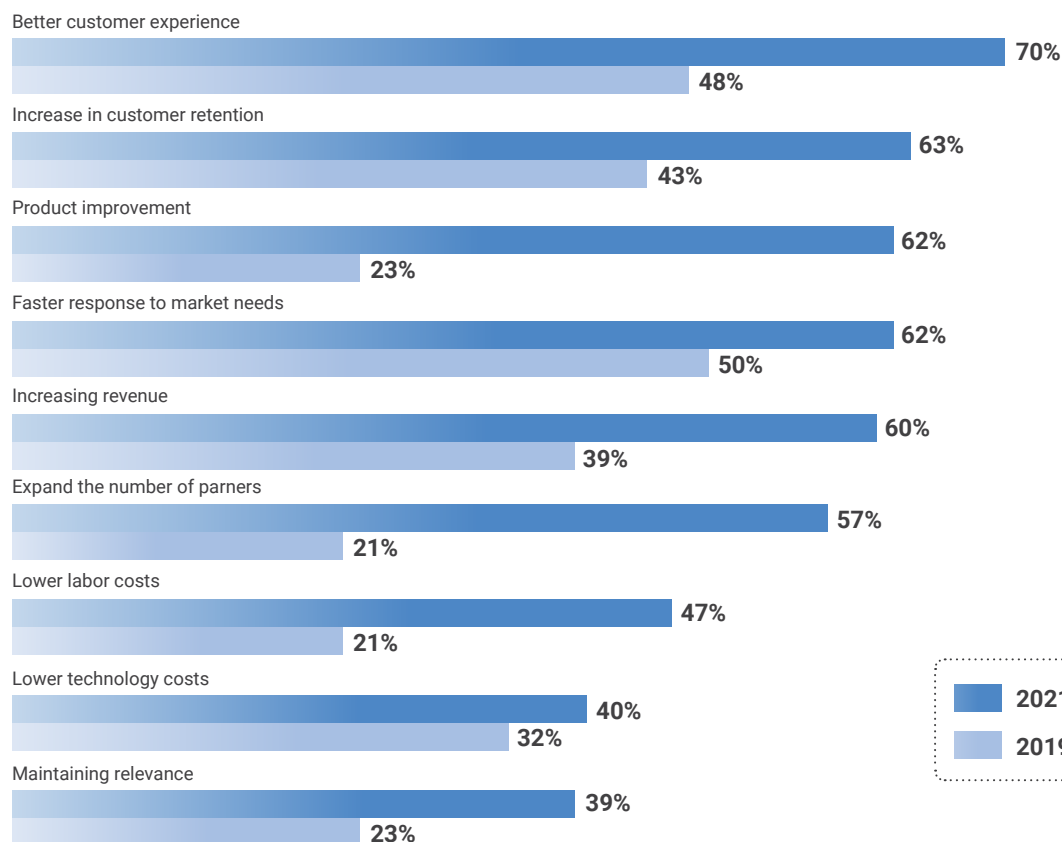


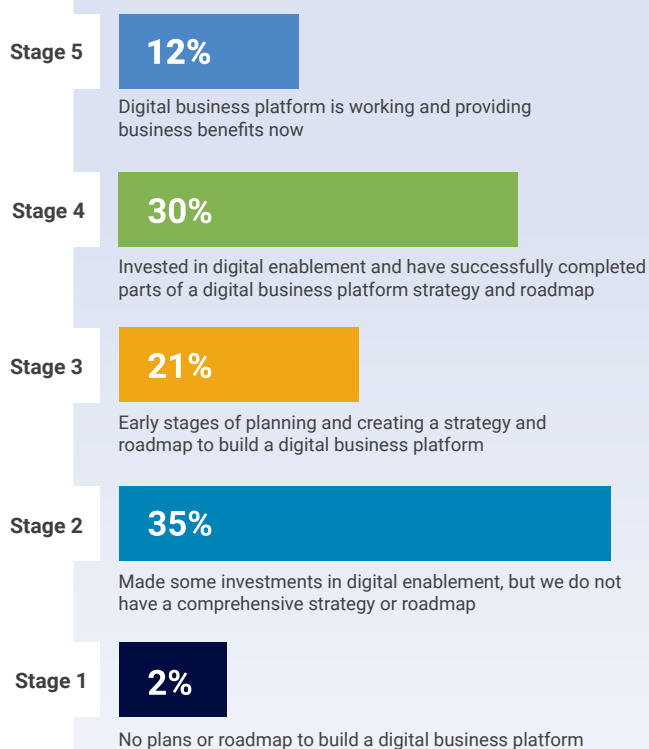
Figure 4: Investments in digital business platforms and ecosystems pay off

Carriers' digital maturity still in the early stages

Given that 62% of insurers agree the integration of legacy core systems into a DBP and ecosystem is important for their competitive position in the next three to five years, how far along are they on that journey? It's still early days. Among respondents, 35% have made investments in digital but have no

comprehensive strategy or roadmap, marking them low on the digital maturity scale (Stage 2). Another 21% have completed parts of a digital platform (Stage 3), while 30% are in early stages of investment, DBP development and strategy and roadmap planning (Stage 4). Only 12% have a working DBP that provides business benefits (Stage 5).

Time to invest in digital platforms



Q18. Which of the following best describes your company's phase for becoming digitally enabled and building its DBP?

It's worth noting that the numbers on where companies position themselves in terms of digital maturity represent a bit of a backtrack from the 2019 report, when 62% said they were in either Stage 4 or Stage 5. Why, then, two years later has that number dropped to 42%? Are L&A companies stalling out or even retrenching from their previous interest in DBPs? We don't think so.

One factor: The earlier survey included property and casualty firms, which traditionally are ahead of L&A players when it comes to digital transformation, so the comparison is somewhat apples and oranges. But our take is that many insurers in 2019 had unrealistic assessments of their own digital capabilities. The accelerating force of 2020 was a reckoning for L&A carriers when they realized either that they couldn't move as quickly as they thought to implement digital capabilities because they still had too many manual processes or that the business model itself wasn't optimized to execute on digital.

Here's a telling anecdote. The advent of e-signatures over the last few years left some carriers behind the curve. Their existing technology didn't support this shift, so they created workarounds where consumers could take a picture of their wet signature on a contract and then email or fax the image to the carrier. It seems likely that new investments in business technology will now eliminate this old-school process and integrate e-signatures into the insurance workflow.

Figure 5: Stages for building digital platforms

Carriers rate their ability to meet digital objectives

At this point in the survey we asked responding L&A leaders to turn introspective and grade their own abilities to meet their new objectives. Specifically: “On a scale of 1 (no ability) to 10 (high ability), how would you rate your ability to build and expand a DBP in each of the following areas?” (See Figure 6.)

In general, companies rated themselves highest when it came to managing customer privacy (56%), incorporating emerging technologies such as AI (56%), accessing customer data in secure ways (54%), integrating with existing internal systems (52%) and launching new products (52%). Overall, self-rankings for all capabilities were somewhere in the middle of the scale, between 46% and 56%.

Q27: On a scale of 1 (no ability) to 10 (high ability), how would you rate your ability to build and expand a DBP in each of following areas? (Results reflect % selecting 9 or 10.)

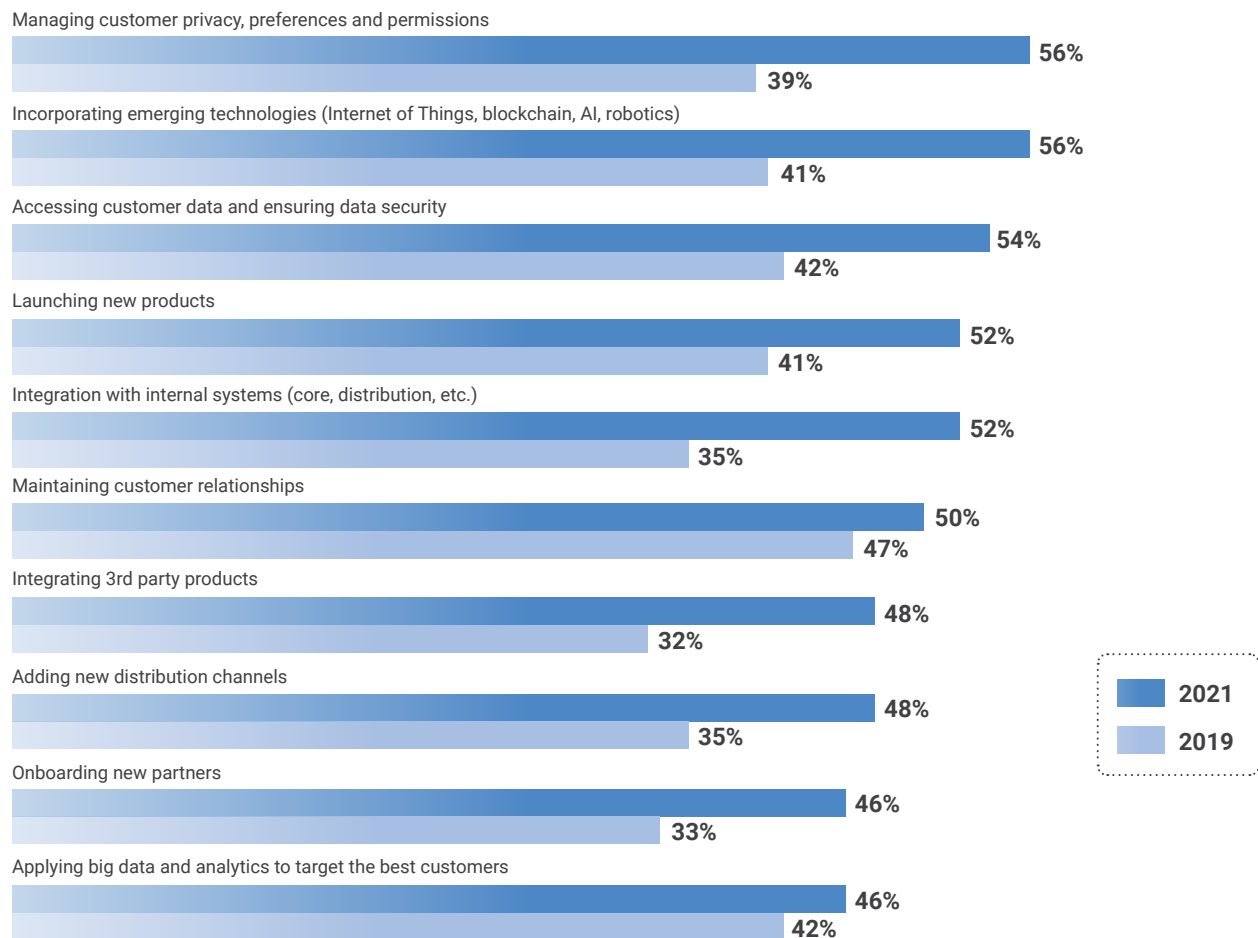


Figure 6: Ability to build and expand digital business platforms

How carriers are investing in digital transformation

The new decade sees carriers continuing on a path to fund digital transformation investments using technology to maximize growth opportunities, accelerate underwriting, optimize operations and reduce costs.

In a significant shift of priorities over the past two years, carriers are investing in DBPs and ecosystems with new distribution channels (up 13% from 2019), integrating third-party products (plus 12%) and onboarding new partners (up 6%). At the same time, investments are declining from 2019 efforts to maintain customer relationships (down 10%) and integrate with internal systems (down 12%). Here's a snapshot of these trends.

New distribution channels. This area rose to the top investment spot. The goal is to access customers via their preferred channel. Platforms allow companies to experiment in areas such as direct-to-consumer and business-to-business-to-consumer. Carriers are also pursuing affinity partnerships with major brands, creating products to sell in marketplaces run by other companies and working with aggregators like compare.com that allow shoppers to compare products side by side.

Emerging technologies. We believe many L&A carriers are adding DBP capabilities by replacing or enhancing legacy core policy administration systems (PAS) with market-leading cloud-based digital solutions. Leading vendors of these systems, which are used as a foundation to digital transformation in many cases, include Accenture, FAST, iPipeline, Majesco, Oracle and Vitech Systems Group.

Q28. For each capability area, please indicate the level of investment activity at this time? (Results reflect % selecting high option.)

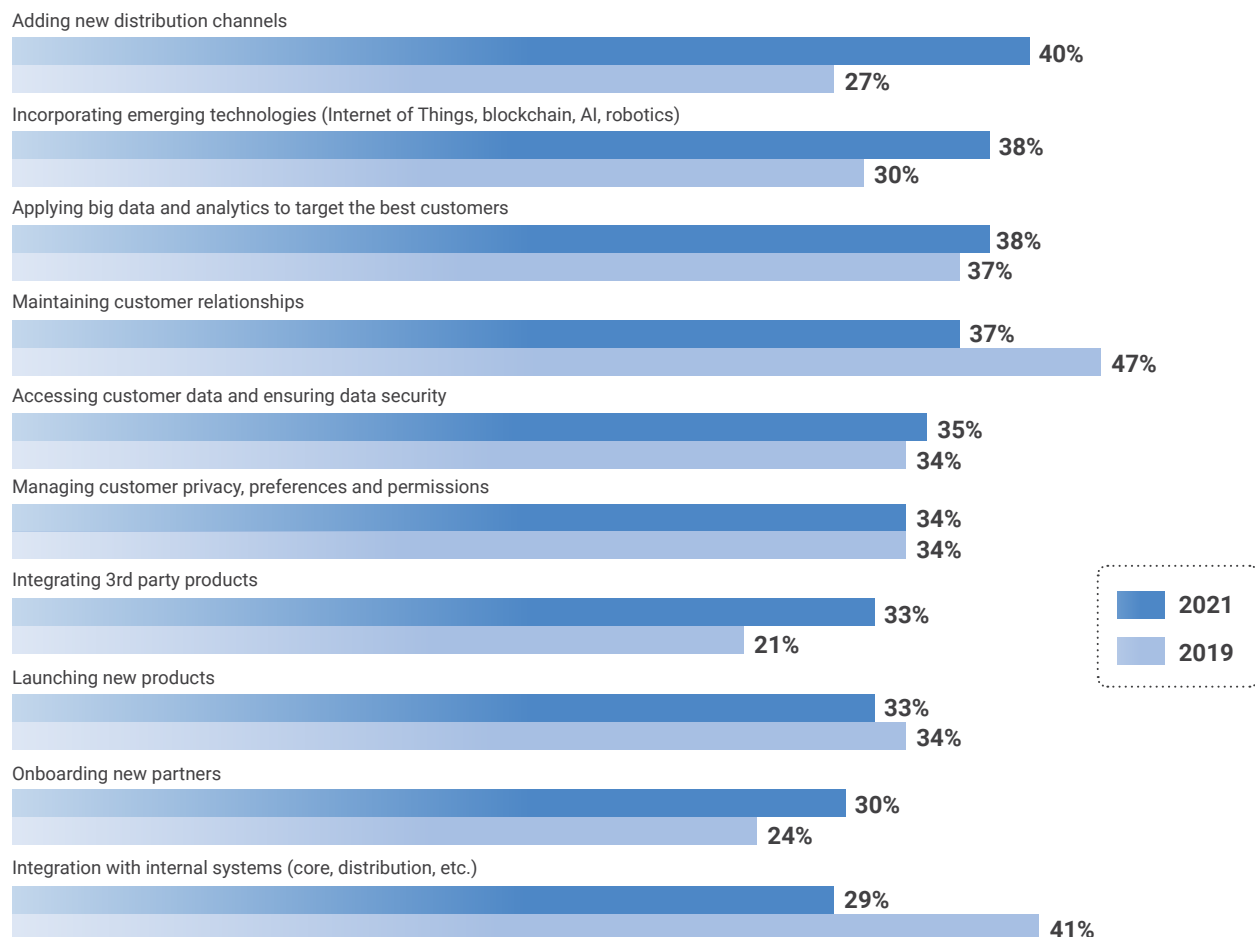


Figure 7: Current digital business platform and ecosystem investments

These solutions allow carriers to build new platforms on existing core technology while improving product agility with faster time to market, rapid test and learn cycles, and direct-to-customer engagement. Vendors incorporate core insurance claims processing, support for multiple business lines, and automation for straight-through processing of new business and underwriting.

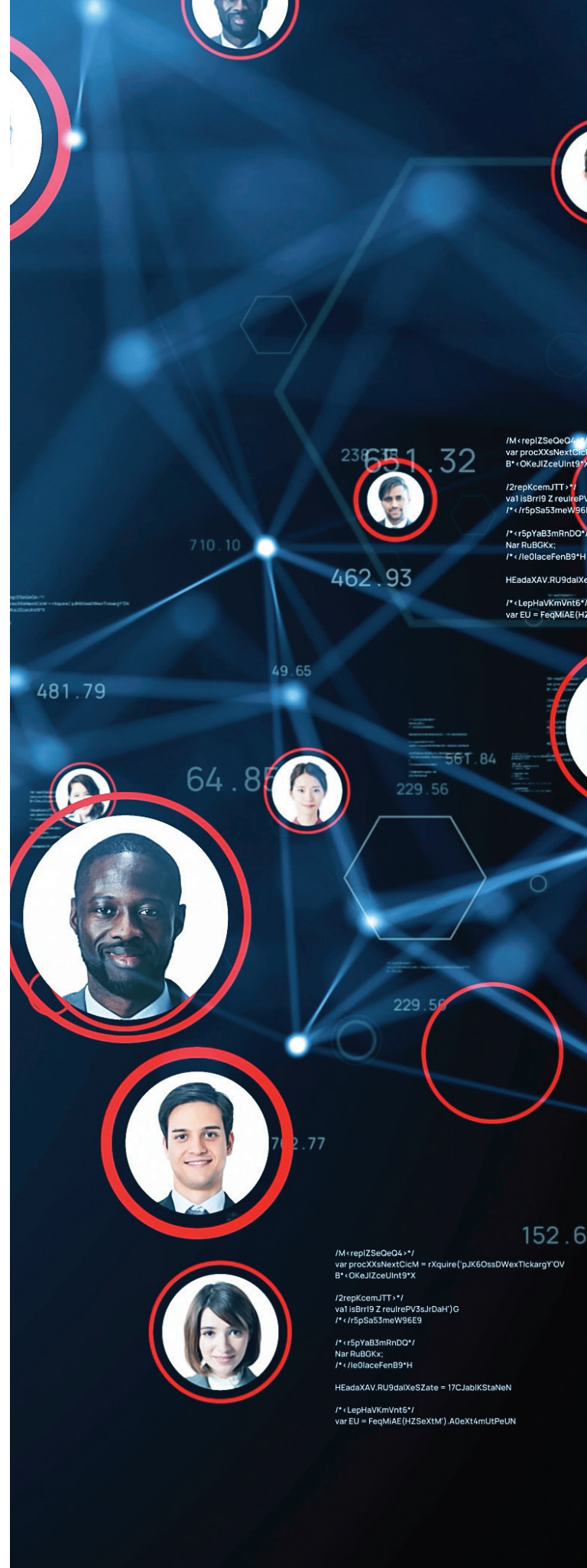
Onboarding new partners. As carriers shift from vertically integrated models, they're partnering to acquire new products and new capabilities. In February 2021, Nationwide and Annexus agreed to partner on an in-plan guaranteed income solution, called Lifetime Income Builder, designed to help retirement plan participants maximize their income.¹² According to Eric Stevenson, president of Nationwide Retirement Plans, the partnership "allows us to better serve existing plan sponsors and consultants while also reaching new clients ..."

Integrating third-party products. As we've previously stated, insurers are starting to include third-party products on their platforms and ecosystems as new business lines to generate growth. Property and casualty giant State Farm, for example, partnered with Jackson National to sell Jackson's variable annuities products through State Farm agents, because State Farm's portfolio didn't include a variable annuities offering.¹³

While these were top areas for increasing investment over the last two years, carriers backed off in other segments. For instance, they're investing less in maintaining customer relationships (37% vs. 47% two years earlier). This finding may be part mirage. Overall, our data shows companies focusing intensely on the customer through initiatives to improve CX and provide more targeted services. Retention efforts now are a smaller (but integral) part of the overall consumer strategy.

The explanation for this may be that funding for retention programs has been redirected toward overall initiatives to improve CX and provide more targeted services.

Insurers are also less focused on integrating legacy, or core, technology systems with new digital initiatives (29% vs. 41%). This is one result of their growing reliance on prepackaged DBP solutions that allow companies to delay, at least for a short time, replacing core technologies with digital upgrades.



Insurtech and fintech partnerships are key to product agility

A major takeaway from this year's study of L&A executives is their commitment to create more agile product development and distribution that responds to real-time market demand. Among respondents, 54% list "improving product agility" as their top priority over the next few years. Specifically, this means companies want to produce a wider array of products, get them to market faster in response to demand and offer their customers complementary products from other vendors through distribution channels.

DBPs and ecosystems can help, but most companies lack these capabilities in-house and are on a hunt for partners. Where will these partners come from?

Insurtechs and fintechs. Overwhelmingly (80%), L&A leaders agree insurtechs and fintechs will become a larger part of their partnership strategies over the next one to three years. Specifically, 22% listed fintechs/insurtechs as their top choice for distribution partners in the digital ecosystem. One example: In 2019,

Prudential Financial acquired insurtech startup Assurance IQ in a deal valued at upward of \$4.4 billion.¹⁴ Assurance IQ provides Prudential's financial wellness business with a direct-to-consumer channel and a larger addressable market.

Distribution partners. Over the past six to nine months, 59% of L&A leaders report prioritizing partners that offer new or specialized distribution channels. In addition to insurtechs/fintechs, these partners include non-traditional choices like retailers and financial services startups. Take John Hancock, which in August 2020 announced a partnership with Amazon.¹⁵ Hancock is integrating its Vitality Program with Amazon Halo so Hancock customers can earn points by wearing an Amazon Halo Band.

The emphasis on speed to market isn't new for insurance carriers, but it's rising in priority, especially for individual L&A insurers where traditionally it has taken 12 to 18 months to move a new product from

Q19: How has your line of business integrated both third-party products and distributors over the past 6–9 months?

Q20. Over the past 6–9 months, which companies have you partnered with to distribute your products on their platform?

Q25. Please rate your level of agreement with the following statements about your company's priorities for the next 1–3 years.

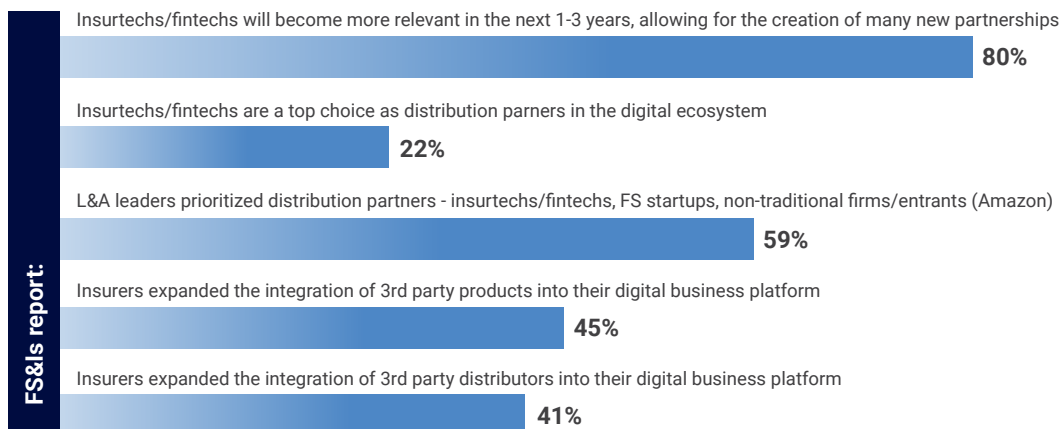


Figure 8: Insurtech and fintech will become a bigger part of partnership strategies

concept to market launch. That's way too leisurely a pace in the digital age, which puts a premium on getting a minimum viable product (MVP) to market quickly and then iterating based on customer feedback. The new standard: three-, six- or nine-month time to market.

It needs to be noted that digitally mature companies are best positioned organizationally and technologically to execute on a product agility strategy. They've broken down silos to support greater innovation and

collaboration while also deploying the tech firepower required to drive new product iterations to market quickly.

Other priorities executives note include hyper-personalization of products (43%), such as dynamic pricing tied to the insured's behavior patterns. Carriers also target improving margins on retail products (42%) and migrating client users to digital interactions (40%).

Q24: What are the top strategic priorities for your company in the next 1–3 years?

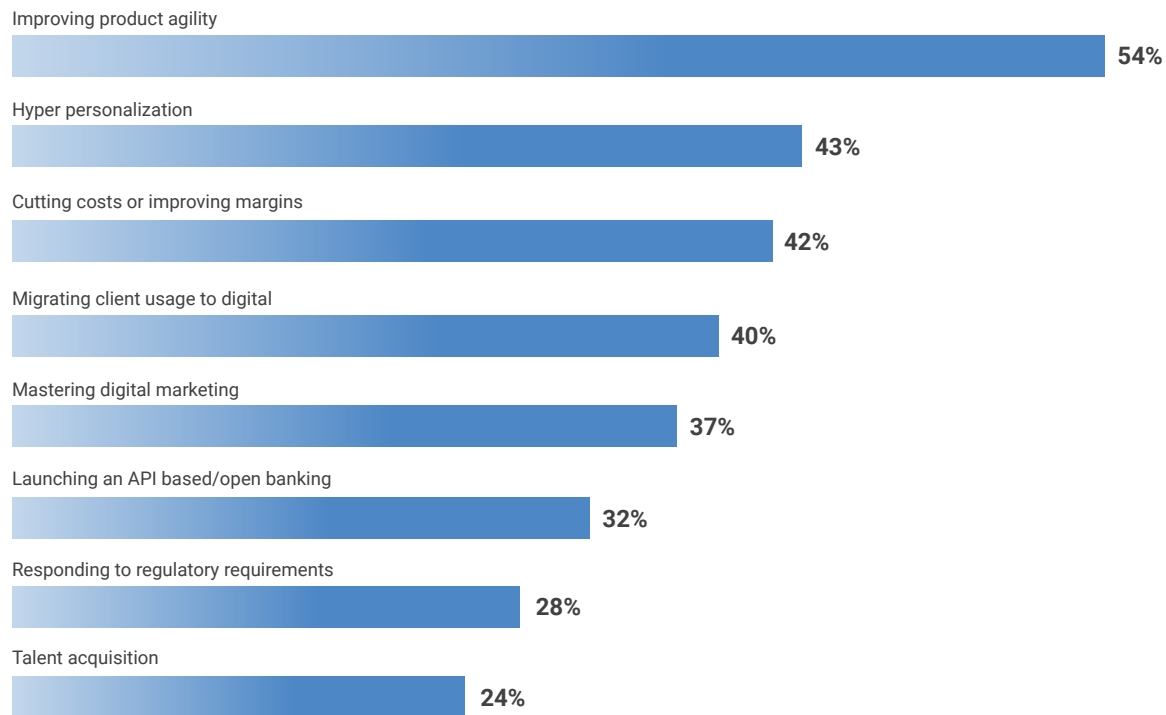


Figure 9: Top strategic priorities over the next 1–3 years

Obstacles to achieving digital transformation

The study identifies eight barriers that stand in the way of operationalizing DBPs and ecosystems. As in previous surveys, across a wide FS&I audience, the number one obstacle cited is technology architecture. Among L&A executives, 50% rank technology as their top obstacle to overcome.

One successful tool for winning this battle, insurers confirm in the research, is their growing focus on developing application programming interfaces (APIs). These low-code or no-code approaches to platform development and integration are often valued as a proprietary advantage in a DBP environment, allowing disparate technologies to talk to each other and process tasks. For example, you might develop APIs that allow

products from other companies to display and be sold on your platform. (Companies in the U.S. have backed off earlier explorations of monetizing their APIs and now seem focused on making them more powerful.)

Especially in the L&A space, carriers are determining how to move past legacy systems that hold back graduation to modern digital systems. The evolution of highly parameter-driven, cloud-based PAS solutions helps companies move to digital and delay decisions on what to do with legacy iron and software.

Other top-ranked obstacles include difficulty building a persuasive business case (38%), organizing cross-functional teams (36%), and creating agreed upon goals and cost-sharing arrangements (36%). Another factor holding back progress on digital comes from the C-suite. Securing executive sponsorship for these initiatives, which was a lower importance impediment in 2019 (9%), grew significantly for the L&A community in 2021, to 31%.

This reflects the added pressure CEOs put on IT teams to justify their spending in terms of return on investment. We suspect this scrutiny intensified as COVID-19 clouded the business environment and companies looked to conserve spending. (It might also explain why convincing business cases were harder to sell to top management.)

In some ways, these findings reflect a growing maturity about the true costs of digital transformation. Sure, technology is critical, but so are the organizational changes that must accompany them. Consider the 13% increase in “organizing cross-functional teams.” Truly digital organizations emphasize cross-department collaborations, speed to market, decision-making pushed closer to the customer and a host of other capabilities that break apart traditional hierarchical management structures. No wonder organizational sponsorship is becoming so much more important.



Figure 10: Major obstacles to building a DBP and ecosystem strategy

Shifting through the five gears of digital acceleration



Our research shares L&A carriers' views on where the industry is steering and how they intend to operate to remain competitive. Based on what they told us, here are our digital transformation recommendations.

1. **Ready, set, go.** As digital platforms and ecosystems continue to drive digital transformation, you need to start from a solid foundation. Select and implement a modern, highly parameter-driven, market-leading core platform to host digital growth initiatives such as product agility, new distribution channels and entry into new markets. Using an MVP approach and adopting a try-and-learn culture can provide effective first steps toward digital core modernization with lower upfront cost.
2. **Embrace digital business principles.** In second gear, embrace digital technology, especially cloud. Your digital enterprise isn't solely about hardware and software; it's about a way of doing business that follows certain digital principles. These include a relentless focus on CX, encouraging and rewarding innovation, continuous product testing and improvement, frictionless collaboration between departments, and building distinctive capabilities around data management and analysis. Digital is also a catalyst to implement so-called hybrid processes, such as combining traditional face-to-face selling with online and direct channels.
3. **Find compatible partners.** As you shift into third, look outside the organization for innovative technology, operational capabilities and partners that can help accelerate your digital journey. These partnerships, often with insurtechs, can bring innovative technologies and business practices. Here are several key points to keep in mind:
 - Before partnering with a fintech or insurtech, you must apply sound risk management practices. After all, platform owners are fully responsible for third-party vendor actions. Perform product due diligence to ensure the partner's technology will integrate with core systems, comply with legal and regulatory requirements, map to operational procedures and provide superior CX.

- Pay close attention to insurtechs as potential partners. Yes, they've long been viewed as potential disruptors to business ambitions, and they certainly can be. But also recognize that, by nature, insurtechs are catalysts for change and innovation. Look at the M&A playing field: The growth of insurer investment funds focused primarily on the insurtech market is increasing rapidly and reporting repeated successes.
 - Look for partners that thrive on CX and unorthodox thinking. Innovation with out-of-the-box thinking, especially CX design with a design-thinking approach, is frequently found in startups and insurtechs. Innovation through these partnerships can move the needle quite significantly, and frequently forms the basis for a greenfield business launch in a new direction for insurers.
4. **Commit to CX.** There should be 100% commitment to digital CX and engagement when you hit fourth gear. Today's customers relish experiences such as being able to purchase a life insurance policy in five minutes over their mobile phone, without encountering invasive questions. Consider using emerging underwriting practices such as "fluidless," which rates applicants based on data rather than medical intervention.
 5. **Evaluate new operating models.** To realize the most benefit, your digital transformation requires organizational transformation — and likely a shift to a new operating model. Organizational design and culture must support what the new technology provides: faster time to market, encouragement of innovation, try-and-learn and design-thinking methodologies, enhanced CX, and identifying and executing powerful partnerships. These are such sweeping changes that digital transformation must be driven from the top down, across all departments and functions.



Conclusion

In our 2019 survey of the broader insurance community, it was clear insurance carriers of all stripes and across the globe were investing significantly in digital technologies to both streamline operations and explore new revenue opportunities. Two years later, those trends have accelerated greatly. L&A carriers now focus on engaging customers with better experiences. They're standing up DBPs and ecosystems, as well as finding partners to fill them with products and distribution channels. They're improving their own technology capabilities to innovate new products, get them to market in months rather than years and attract new customers with easy-to-use platforms.

Here's another trend to track in the near future: the insurer self-funded insurtech venture capital investment. The agility and innovation to support these initiatives increasingly includes the use of internal venture funds.

Insurance companies, including New York Life¹⁶ and Nationwide,¹⁷ have established venture funds to locate and grow technologies and ideas to promote value for customers across a wide range of areas, including analytics, data sources, cybersecurity and retirement planning models. The venture process formalizes the methods used for opportunity identification, business case development and governance.

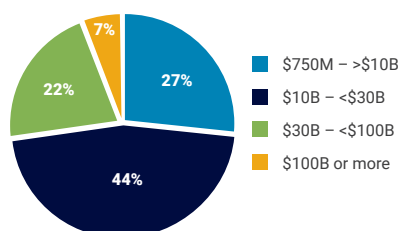
For all the misery it has caused, the pandemic has also unleashed a digital acceleration that's transforming L&A companies with a speed and depth previously unknown in this industry. Our survey results show industry leaders clearly see the opportunities before them and the challenges they must overcome. In this new decade, they're making significant shifts that will change the competitive insurance landscape for years to come.

Research methodology and demographics

- 100 U.S. online L&A survey respondents
- Decision-makers in budgeting, managing or strategic planning initiatives for all or part of their company's digital business platform
- Represent a wide range of functions, including origination/sales and marketing, underwriting, risk systems, digital initiatives, offering or product management (including actuarial), sales support, claims, customer service
- Throughout this document, we compare this new research with our February 2019 "Digital to the Core: Transforming Financial Services and Insurance in the New World of Digital Business Platforms and Ecosystems" research

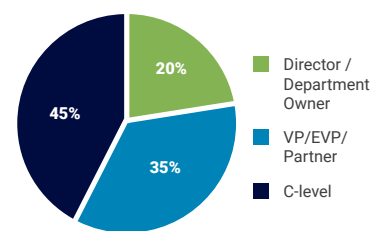
Annual GWP

73% of companies in the survey have more than \$10 billion in annual gross written premiums



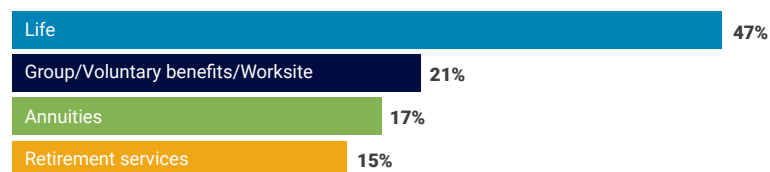
Respondent job title

The majority of respondents were senior executives



Industry segment summary

Respondents came from 4 segments of the insurance industry



Sources

1. "Digital to the Core: Transforming Financial Services and Insurance in the New World of Digital Business Platforms and Ecosystems." NTT DATA. July 2019. <https://us.nttdata.com/en/-/media/assets/white-paper/digital-to-core-transforming-financial-services.pdf>
2. Terrence Dopp. "COVID-19 a Year Later: Life Insurers Forced Into Digital, Operations Growth in Survival Bid." Best's Review. March 2021. <http://news.ambest.com/ArticleContent.aspx?pc=1009&altsrc=158&refnum=306055>
3. BusinessWire. "American Financial Group, Inc. Announces Agreement to Sell its Annuity Business to MassMutual for \$3.5 Billion. Press release. January 27, 2021. <https://www.businesswire.com/news/home/20210127005961/en/American-Financial-Group-Inc.-Announces-Agreement-to-Sell-its-Annuity-Business-to-MassMutual-for-3.5-Billion>
4. Leslie Scism. "Sixth Street Partners to Acquire Life Insurance Business Talcott Resolution for \$2 Billion." Wall Street Journal. January 20, 2021. <https://www.wsj.com/articles/sixth-street-partners-to-acquire-life-insurance-business-talcott-resolution-for-2-billion-11611136802>
5. Susanne Sclafan. "Allstate to Sell Life Insurance Company to Blackstone for \$2.8B to Grow in P/C." Insurance Journal. January 27, 2021. <https://www.insurancejournal.com/news/national/2021/01/27/598966.htm>
6. Leslie Scism. "American International Group to Divest Life-Insurance Business." Wall Street Journal. October 26, 2020. <https://www.wsj.com/articles/american-international-group-to-divest-life-insurance-business-11603743531>
7. Cigna. "New York Life Completes Acquisition of Cigna's Group Life and Disability Insurance Business." Press release. December 31, 2020. <https://www.cigna.com/about-us/newsroom/news-and-views/press-releases/2020/new-york-life-completes-acquisition-of-cignas-group-life-and-disability-insurance-business>
8. Swiss Re Group. "Global insurance industry to recover strongly from COVID-19 induced pull-back, sigma says." Press release. July 9, 2020. <https://www.swissre.com/media/news-releases/nr-20200709-sigma-4-2020.html>
9. Matthew Josefowicz. "How The Principal is handling coronavirus." Digital Insurance. April 14, 2020. <https://www.dig-in.com/news/how-the-principal-is-handling-coronavirus>
10. Karen Monks and Keith Raymond. "Life Insurance CIO Pressures and Priorities 2021: North American Edition." Celent. January 30, 2021. <https://www.celent.com/insights/114143494>
11. Allianz. "Sustainable Solutions." <https://www.allianz.com/en/sustainability/business-integration/sustainable-insurance/sustainable-solutions.html>
12. InsuranceNewsNet. "Nationwide Partners With Annexus On Lifetime Income Builder." Press release. February 9, 2021. <https://insurancenewsnet.com/inarticle/nationwide-partners-with-annexus-on-lifetime-income-builder>
13. Cyril Tuohy. "State Farm Deal A Huge Boost For Jackson National Distribution." InsuranceNewsNet. October 9, 2018. <https://insurancenewsnet.com/inarticle/state-farm-deal-a-huge-boost-for-jackson-national-distribution>
14. Fred Pennic. "Prudential Financial Acquires Insurtech Startup Assurance IQ, for \$2.35B." HIT Consultant. September 6, 2019. <https://hitconsultant.net/2019/09/06/prudential-financial-acquires-insurtech-startup-assurance-iq-for-2-35b/#.YC2NoWhKjIV>
15. Anthony R. O'Donnell. "John Hancock Integrates Amazon Halo With Vitality Program." August 28, 2020. Insurance Innovation Reporter. <https://iireporter.com/john-hancock-integrates-amazon-halo-with-vitality-program/>
16. New York Life Ventures. "Increasing speed to insight since 2012." <https://www.nylventures.com/>
17. Nationwide Ventures. <https://www.nationwide.com/cps/nw-ventures.html>

Visit nttdataservices.com/insurance to learn more.

NTT DATA Services, a global digital business and IT services leader, is the largest business unit outside Japan of NTT DATA Corporation and part of NTT Group. With our consultative approach, we leverage deep industry expertise and leading-edge technologies powered by AI, automation and cloud to create practical and scalable solutions that contribute to society and help clients worldwide accelerate their digital journeys.

NTT DATA
Trusted Global Innovator