



CEO Brief

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CEO Brief is a report highlighting key current issues the insurance industry faces.

Next Insurance (I) : Digital Transformation in the Insurance Industry

The “Next Insurance” CEO Brief series diagnose the prospects of the Korean insurance industry and suggest business and policy agendas.

ABSTRACT

Digital transformation will bring change in the way insurers do business, their value chains, and ultimately customer value propositions. Also, hyper-connectedness across industries created various ecosystems, which will change market competition. Therefore, insurers should be innovative and make bold investments. Also, both deregulation to boost innovation and regulatory adjustment to bolster fair competition will be necessary.

1. Why Is Digital Transformation Important?

Providing new products and services fit for the digitalized environment became an imminent mission to the insurance industry due to big data, artificial intelligence (AI), the Millennials (born 1981–1996) and Generation Z (born 1997–2012) cohorts, and Big Tech’s entry into the insurance market. Moreover, responses to Covid-19 disrupting face-to-face communication have accelerated the adoption of digital technologies.

To stay competitive in this new digital world, insurers need to integrate digital technologies into their strategies and practices. Consumers prefer swift and transparent communication, and Big Tech promptly satisfies these consumer needs. Under the circumstances, insurers will fall behind if they stick to their past strategies. Therefore, the insurance industry should take digital transformation seriously and examine where they are heading.



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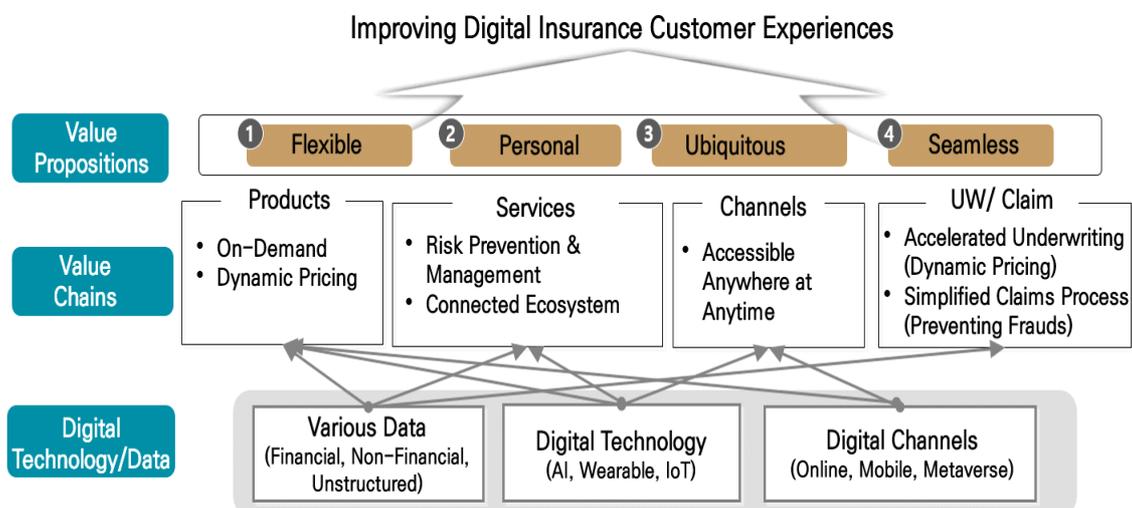
2. How Will Digital Transformation Change Insurance?

Big data, AI, platform services will change the way of providing insurance services and the scope of the insurance business. The role of insurance is transforming from just paying claims for covered losses to Insurance as a Service, i. e. a data-driven risk management service providing a real-time assessment and coverage.

The digital transformation will make insurers' value chains more automated and refined. As various digital experiences raised consumers' expectations, insurers should reshape their value propositions. The new value propositions will deliver **① flexible** **② personal** **③ ubiquitous** **④ seamless** experience to insurance consumers.

Big data, hyper-connected industries, and Big Tech's business expansion have created diverse ecosystems, and the insurance market also extended around the ecosystems. And the evolving market will require market players different core competencies. If insurers defy the changes and stick to the traditional role, their role would be limited to claim payment.

<Figure 1> Changes in Value Chains and Value Propositions





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3. How Should the Insurance Industry Prepare?

While the current digital environment poses a dire threat to insurers, it can provide new growth momentum. First, to take advantage of this opportunity, insurers need fresh perspectives on the insurance business and innovative ways of delivering insurance services to meet customers' expectations. Insurers must provide seamless experiences to customers traversing online and offline. Also, they could prepare for new market competition by cooperating with other players in the ecosystems or investing in digital start-ups.

Second, both deregulation to boost innovation and regulatory adjustment to bolster fair competition and prevent consumer detriment will be essential. In addition, the insurance industry needs to establish guidelines for data utilization and security to minimize data misuses and privacy breaches to secure consumer trust.

Last, the insurance industry should take measures to minimize the potential financial exclusion caused by digital transformation. Insurers must recognize information gaps or limited access that the elderly, a low-income group, or disabled people could face in rapid digitalization, provide educational programs, and improve the user's convenience of the digital channel.

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