Leading in a digital world:

strategy, risk, and business transformation

Insurance Governance Leadership Network

July 2014

EY

Building a better working world

Tapestry Networks

Insurance Governance Leadership Network
ViewPoints
July 2014
TAPESTRY NETWORKS, INC · WWW.TAPESTRYNETWORKS.COM · +1 781 290 2270

"My sense is that standing still will not be an option, so how do we evaluate moving forward? Are we talking about small steps or radical business-model changes?"

– Non-executive director, global insurer

Leading in a digital world: strategy, risk, and business transformation

The digital transformation of the insurance sector is real, accelerating, and a matter for ongoing board consideration, according to leaders of many complex insurance groups. The digitization of insurance encompasses many trends, including the emergence of new technologies, changing customer preferences, and the advent of new competitors. Insurers feel the impact of disruption across the entire value chain, from underwriting and risk management to claims. Appendix 1, on page 11, provides a summary of selected disruptive forces and implications for the insurance value chain.

On June 4, Insurance Governance Leadership Network (IGLN) participants met in New York to discuss digital transformation. For a list of meeting participants, see Appendix 2, on page 12. This was the first of what will likely be many conversations on the topic. As participants sought to better understand of the implications of this transformation for insurers, it became clear that the topic cannot be neatly boxed and delegated to a department, executive function, or a committee of the board. The increasing digitization of insurance raises issues about strategy, risk, industry and organizational structure, workforce, and culture – issues that, in the final analysis, require the full board's attention. There is a lot to sort through and much is at stake. Several participants went so far as to suggest that digital transformation is a sort of industry litmus test, one that will identify future industry winners and losers.

During their conversations on transformation, participants identified several sources of tension that are driving digitization higher up the board agenda and that have implications for resource allocation, strategy, and organizational structure. This *ViewPoints*[1] centers on three of these tensions:

- Creating a consistent yet personalized customer experience across the group
- Building agile and responsive structures in the face of numerous constraints
- Understanding regulation as a source of strength and challenge

Creating a consistent yet personalized customer experience across the group

Changes in customer behavior, coupled with the emergence of new sources of data and new platforms for interacting with customers, are causing companies to rethink how they meet market needs and communicate with customers. Insurers, like other retailers, seek to give each customer an individualized experience. At the same time, most want to maintain a strong brand and a consistent customer experience across a wide range of products, channels, and modes of access. One executive said, *"We need to understand how customers want to interact – social media, agents, apps, online? What are the product needs they have? Are we meeting those needs? Do they even know they have them? This is not just about using new technology; it will restructure many aspects of the business and workforce."*

Participants noted the following changes in customer behavior:

- **Higher expectations for speed and ease of use.** For an increasing number of customers, convenience is a primary value. In the insurance context, this means integrated and seamless experiences, regardless of the channel. Specifically, customers want to shift effortlessly from computer to agent to smartphone as they explore and adopt products and services. They want to access sales advice, customer service, and claims management at any time of the day or night, from wherever they happen to be.
- **Different views on brand loyalty.** As companies such as Amazon increasingly become the source for all types of products, consumers may not favor certain traditional providers the way they once did or distinguish among types of providers, such as, for example, general retailers and financial services companies. One director said, *"The younger generation may trust a large retailer for other products, so they will buy financial services from them too. They don't distinguish between banks, insurers, and other retailers. The reputation comes across from other sectors."*
- **Demand for more personalized service and recognition of loyalty.** Customers are demanding a more personalized shopping and provider experience, and retail operations have seen a tremendous increase in the subscription rates for loyalty programs, perhaps a reflection of customers' desire to feel valued. One executive noted, *"Maybe it is premium reduction over time or referral awards. Mutuals can position dividends in different ways. But I think most companies are looking for better ways to acknowledge the customer."*
- **Greater self-reliance.** The rise of comparison sites, or aggregators, that provide information and insights is helping to create a savvier customer. Many customers, particularly those in the market for more basic products, can easily check product costs and company ratings or review customer feedback online. One director noted, *"It is a self-service model. Customers want to do the work on their own and determine the best product. Traditional selling doesn't work anymore."*

Targeting the youth market

Changes in behavior and expectations are most pronounced in younger consumers, the so-called "digital natives," who have grown up with computers, the Internet, and mobile technologies.

Several participants noted concerns about the loss of the youth segment. *"My daughter doesn't understand why she should talk to an agent,"* said one director. Another director noted, *"We have work to do. The relevance of insurers to youth is not clear. They don't understand the products, nor why they need them."*

Younger customers generally show less interest in insurance products and are more difficult to reach. Failure to capture this group could constrict the pipeline for diversified insurers who offer a variety of products over time and life stages, and who rely on repeat business.

Microsegmentation can be at odds with a consistent user experience

In a conversation before the meeting, an expert described the new market reality: *"There are new customer segments. They are not socioeconomic or demographic segments. They are based on psychographics,[2] and a fundamentally different approach to service is needed."* Insurers are interested in leveraging data to develop increasingly tailored microsegments of customers and to control those customers' experience.

"Traditional customer segments are falling apart."
– Director

However, microsegmentation and the proliferation of communication channels can make it difficult to guarantee that customers have a consistent experience across the company and that the company maintains a strong brand across the customer base. One director said, *"As a board member, I want both my daughter and me to get the service and products we are after, whenever we want them, and for all of the contact points to feel like [the same company.]"* This is a tall order. Several participants pointed to Apple as the company with the best model: *"Their products, stores, and service all have a similar feel,"* said one director. This is a high standard: several participants readily acknowledged that insurers are unlikely to be able to dictate architecture the way that Apple or Google, who create digital tools, can.

Digital capabilities must be both locally owned and centrally controlled

Directors noted the challenge of embedding digital capabilities in discrete businesses while also maintaining centralized control. One asked, *"How centralized or distributed is digital? Where is it owned?"* He continued, *"It cannot be locked up in a tower."* Another agreed: *"The people who design the apps need to be close to the business."*

Historically, digitization has been viewed as the responsibility of the information technology (IT) function and not widely distributed across the enterprise. One director said, *"I think many companies still view IT as a fix. People solve problems organizationally and then bring in the IT guys. Digital will need to cross all organizational structures."* Directors concurred that digital projects and operations must be owned and led by local organizations, not IT functions or the broader group, but said that the process of determining who should have which decision-making rights is complicated and ongoing.

Though participants felt that most digital capabilities should be distributed, they were quick to note that the cost and nature of digital transformation requires a strong centralized structure and commitment to an overall architecture. One director observed, *"Some of these [digitization] projects are orders of magnitude more expensive than any other project. For our organization, this work is hundreds of millions of dollars over many years."* Even smaller initiatives need to fit into the overall objectives and strategy of the larger group. Furthermore, IT initiatives are not one-time costs. One director cautioned, *"Remember, once something is developed, it never goes away."*

"You need innovation and freedom, but you need controls around it. Otherwise they will run the bill up to a whole new level of cost."
– Director

Building agile and responsive structures in the face of numerous constraints

To attain the agility and speed that competitive pressures and customer preferences demand of them, large companies must simplify their systems, processes, and structure. One expert said, *"If I could advise boards to do one thing, it would be to focus on simplification. It should be a mandate that all new investments simplify systems. Companies can be good at talking about simplification, but they don't always make good."* A director agreed, asking, *"How do you sense and respond to market and stakeholder preferences and scale up what works, quickly? If you are not agile, it is a serious handicap."*

Although companies genuinely wish to modernize and simplify systems and expand their digital footprint, boards face a large number of constraints, including legacy systems, limited financial and talent resources, unaccommodating organizational cultures, and security requirements.

Legacy systems

"Finding the money and the people for projects is still challenging. It is very difficult for companies to decide what their priorities are and how to allocate resources, and all of these issues are much tougher when you're dealing with legacy companies," said one director. In a 2013 EY global insurance digital survey, 80% of respondents listed "legacy technology constraints" as a top inhibitor to digital growth.[3] The vast majority of large and complex insurers operate their core systems on multiple, mutually incompatible, antiquated architectures that, even on their own, are inflexible and expensive to maintain. Decades of mergers and acquisitions have added to system complexity and fragmentation, data are often siloed in incompatible databases, and upgrading systems without interruption to core services is complicated and expensive. As one chief risk officer (CRO) noted, *"We were a conglomerate, not a company. As a result, our technology transformation is on a scale comparable to the largest financial services firms."*

> *"The challenge most insurers are dealing with is growth by acquisition. We bought it and ignored it, and it has been gathering cost ever since."*
> *– Executive*

Several directors suggested that addressing legacy-system challenges may be more important today than in the past. New digital competitors, unencumbered by legacy infrastructure, can gain a competitive advantage because they are faster and more agile, and possess more integrated systems.

Cost

Overcoming the challenges of legacy systems requires a significant commitment of time and money, which can be hard for boards to justify in light of other pressing needs. Currently, as much as 80% of IT spending simply maintains existing systems.[4] A director said, *"When you look at existing IT budgets, how do you prioritize? We need IT projects to help us meet regulatory requirements and to provide better security. It can be hard to think past those basic issues."* In a recent survey of global insurers, nearly 70% of respondents said they spend less than 10% of their business and IT development budgets on digital development.[5]

Several participants suggested that insurers may need to think about IT budgets in different ways. An executive commented, *"I think we undervalue integration. All you see is the initial price tag, and it is next to impossible to quantify the savings. There is a tremendous amount of untapped efficiency. That could be a bigger part of the discussion."* One director suggested, *"We need to rethink IT budgets. It is not just about optimizing spending, but about rethinking how we do projects and how we prioritize."*

Talent

One supervisor noted, *"This discussion assumes you have people with skills and can keep them all up-to-date. Do you?"* Most participants agreed with an executive who said, *"We* *think we do have the people. The amount of data we have is so attractive to the data geeks that we can get the right people. They are attracted to the scale and the richness of the data."* One director disagreed, saying, *"I'm not convinced there isn't a talent issue here. When you look at risk functions and many of the IT functions, we are bringing people in from other industries. It's great that we can pay them and attract them, but they haven't grown up in insurance."* High turnover in IT positions can also be a challenge for companies.

Digital talent in the boardroom

One director identified the challenge this way: *"For hundreds of years, this industry has promoted based on tenure. Today, it takes someone under 40 to really understand [technological] changes, but you won't find those people at the highest levels of the organization because of their youth."* How should companies address skill in the boardroom?

- Some companies are appointing chief digital officers or having digital strategy report directly to the CEO.
- Boards are also recruiting digital talent. Several executive search firms suggest that many candidates will not fit the profile of a typical board member: they may be younger, still in full-time careers, and less experienced regarding boards and governance. One director noted, *"If you actively recruit from that group, then you need to consider cultural and other issues."*
- Board members are looking for guidance on how best to challenge management on key digital issues. Appendix 3, on page 13, provides a short list of questions for boards to consider.

Organizational culture

While talent may not be a leading concern for all insurers, bureaucracy, process intensity, and culture are. One expert said, *"The processes and the culture that support use of data are as important as the individuals."* This echoes sentiments heard in a recent IGLN meeting on the related topic of cybersecurity: *"Culture is a very important component. As a prospective employee, you need to make sure that you're moving into a place that supports the kind of work that needs to be done."*

Several directors noted that insurers are not known to have the kinds of culture that support digital innovation and asked what sort of culture was needed. According to one expert, the culture *"should be about failing fast."* An executive agreed, noting, *"We have to be willing to fail. We have to not have to be right. We need to be better about creating a portfolio of options, of which some will succeed and many will not."* Jeff Bezos, chief executive of Amazon, described this philosophy in a recent letter to shareholders:

> Failure comes part and parcel with invention. It's not optional. We understand that and believe in failing early and iterating until we get it right. When this process works, it means our failures are relatively small in size (most experiments can start

> small), and when we hit on something that is really working for customers, we double-down on it with hopes to turn it into an even bigger success. However, it's not always as clean as that. Inventing is messy, and over time, it's certain that we'll fail at some big bets too.[6]

Acknowledging that many insurer cultures are predicated on reducing risk and failure, participants were eager to discuss innovation experiments in which complex organizations had created space for a fail-fast mentality. Among participating insurers and other large insurance groups, the dominant strategy has been to create separate departments or units for such purposes. These ring-fenced groups (dubbed "science departments" or "innovation labs") give entrepreneurial individuals the opportunity to cut through the bureaucracy of a larger organization. A number of large insurers have created similar entities, though it is still too early to say whether these labs and their products have had a positive impact.

"We created an innovation lab. Some ideas will work, some won't. It creates a better environment for experimentation, and the bureaucracy and culture issues don't get in the way."
– Director

Control and security

Cybersecurity remains a chief concern for insurers and a core element of overall digital strategy. IGLN participants were particularly interested in how organizations can create simplified but more secure environments, and in what other companies think about outsourcing to the cloud. For firms undertaking significant transformation projects, increased simplicity and agility can bring improved security, particularly if security is embedded in new systems and not simply added on as an afterthought. However, leading digital thinkers disagree about how best to promote simplicity and security. One expert suggested, *"Companies have to be willing to simplify and explore things like open-source technology.[7] Open-source solutions can dramatically reduce licensing costs."* A CRO countered, *"You have to be very careful about open source. The security is not always there."*

Participants also touched on a key regulatory concern in a discussion of the risks of outsourcing data and functions to cloud providers. In a recent speech on banking, Thomas Curry, head of the US Office of the Comptroller of the Currency, said, "[Providers] need to consider the legal and regulatory implications of where their data is stored or transmitted, and make a determination as to whether geographic limitations are needed in their contracts … I am concerned about the access third parties have to large amounts of sensitive bank or customer data."[8] One supervisor asked the insurers in the room, *"Where is data being stored? How do you understand the risks of the cloud?"* An executive acknowledged that careful vendor management is needed, but maintained, *"The best-of-breed cloud provider has better security than any legacy provider. We are probably fooling ourselves if we don't think that's true."*

IGLN participants discussed cybersecurity concern in depth earlier this year, and key insights can be found in *Exploring the Cybersecurity Landscape: Growing Risk and Opportunity*.

Understanding regulation as a source of strength and challenge

Insurance leaders tend to view regulation both as a blessing and a curse as they pursue digital transformation. Supervision benefits insurers by testing solvency and market conduct, which provides important signals to CROs, boards, and shareholders. Directors and regulators noted that incumbent insurers could also benefit from necessary financial and licensing requirements that, as a by-product, generate hurdles to new competitors easily entering the field. Conversely, participants expressed concern that regulation, and the uncertainty it generates, could stifle innovation and investment in new technologies.

Assurance of strength and discipline

Several directors acknowledged that supervisors serve insurers, as well as consumers, by assuring conduct and financial strength. One director said, *"Systemically important financial institutions now have the Federal Reserve Bank as a second set of eyes. They second-guess capital decisions. It has to be comforting to the shareholders if the Fed doesn't object. Companies should focus on the benefits the Fed brings."* A CRO also noted the important role local supervision plays for large global insurers: *"I certainly wouldn't sleep as well without knowing good market conduct exists in the local regimes. The regulators help me do my job."*

Entry hurdles for competitors

Regulation may delay new competitors' entry for the time being since capital and licensing requirements present a significant hurdle. Not only does regulation create financial and compliance burdens, it requires levels of transparency that may be uncomfortable for some non-traditional players. As one executive noted, *"When people ask why the Googles of the world don't enter the market, I think the answer is regulation. Can you imagine Silicon Valley types welcoming the long arm of the regulator into their compensation structures?"*

Despite the belief that regulation will tamp down competition, participants expect that non-traditional players will nevertheless start to provide services in domains that historically have belonged to insurers. Directors and executives were eager to understand how regulators might perceive these companies. *"How do regulators oversee new competitors? What is insurance, and what is something else that doesn't fit neatly into any one box?"* asked one director. A supervisor replied, *"If you underwrite or sell, you will be regulated."* However, most participants expect that savvy market entrants will attempt to circumvent regulation through arbitrage. One executive said, *"Regulatory arbitrage is commonplace, but it only works if you're below a certain size … I think we worry about these entities, but we worry more about our historic competitors' new capabilities."*

"What you may see is insurance companies losing the customer relationship and being relegated to underwriting only. That is a significant concern because there will be a loss of margin."
– Director

One expert cautioned that non-traditional competitors are unlikely to compete in traditional ways: *"I suspect competitors who are new entrants will enter on a lifestyle play. Google or Apple won't be an insurer. They will just make it so the phone is the universal tool. If everything flows through the phone, you have to deal with them."* In such a scenario, insurers would face disintermediation and loss of customer relationships.

Disintermediation: the UK aggregator example

Several directors identified the rise of aggregator sites in the United Kingdom as a key concern and an example of potential disintermediation through new technology.

Aggregators permit consumers to price, compare, and purchase auto, home, and other forms of insurance online. In the United Kingdom, reliance on insurance aggregators has grown dramatically since 2006. In 2012, price comparison websites accounted for more than 20% of UK motor insurance sales.[9]

Although insurers remain responsible for underwriting, they lose the direct connection to customers, and this disintermediation can drive down profitability.

Limitations on innovation

Participants expressed concern that supervision could limit innovative uses of new digital capabilities, either by direct prohibition or by creating so much uncertainty about rules that digital initiatives end up unsuccessful or overly risky. One director summarized the views of several others: *"From a strategy perspective, you don't want regulation to be the wall you run into."* Several factors contribute to insurer concerns about future regulation:

- **New data capabilities offer tremendous commercial opportunity and potential for new regulation.** Most participants agreed that firms that can adopt and deploy technology appropriately will have an advantage. Insurers whose scale and resources enable them to access the most relevant data or who have superior analytics on available data will be able to improve pricing and risk selection. They may be able to cherry-pick the best customers, underprice the market on superior risks, and leave other competitors with adverse selection challenges.

  One director characterized the digital environment like this: *"It is still like the Wild West with respect to data. Everyone is trying lots of things. Some things are sticking; others are not. There are very few rules. The rules will come, but it takes a while for regulators to catch up."* If the biggest digital asset is data, then some market players worry that regulators' catch-up may be to prohibit certain uses of data in product development, sales, or marketing. One chairman spoke for several when he said, *"I want to know how regulators view big data."* He continued, *"What are their concerns, and will we hear about them before there is a problem?"*

"The regulatory views of the past won't fit the future. Regulation has to catch up."
– Director

- **Policymakers have not yet formed strong opinions.** Supervisors are the first to acknowledge that they have a great deal to learn. One supervisor noted, *"Generally, we regulators are good at what we have done and getting better at it. We are not as good at looking around corners. We lack the resources and sophistication in some areas – like digital – because we are focused on our primary mission."* One supervisor suggested that political risk should be the area of focus for insurers, more so than regulator activity: *"The thing to keep in mind is it's not what we, as regulators, think is important, but what elected officials are concerned about."*

- **Supervisors are focused on market conduct.** One supervisor noted, *"Many of the digital transformation questions are conduct questions, not safety or soundness issues."* He continued, *"The issue is whether there is discrimination that is enabled because of digital. Does it enable redlining, for example?"* While some insurers may view conduct risks as less significant than financial risks, one director was quick to point out that *"market conduct is a bigger issue than it was five years ago, and it continues to grow. Supervisors in many jurisdictions are taking a different approach to conduct now. Companies are rightfully worried about faithfully delivering services."*

  At the same time, some directors suggest that digitization could reduce conduct risk. *"Insurers have had substantial challenges in keeping agents in line, historically. There's no shortage of examples of misconduct. To the extent you sell directly to the customer through a scripted interaction, you may actually reduce risk,"* one director said. He continued, *"Estate planning for the middle market is an interesting example. It can be done transparently, in a cookie-cutter way, which leads to less risk. You may end up with the same results and a safer route to get there."*

⋆ ⋆ ⋆

In the digital era, competition and success will depend on how well insurers use data and newly enabled capabilities to engage customers, improve offerings, streamline operations, and mitigate risks. While the disruption posed by digital innovation is less rapid in insurance than in some other industries, the potential effects are no less significant. Boards struggle to lead on digital transformation because it influences all aspects of the enterprise. One director noted, *"I think my main takeaway is that if we really put the customer first, it will change distribution and business models fundamentally. Boards say this often, but we are not spending enough time on this."* This IGLN discussion is the first of several intended to help the leaders of complex insurers understand and adapt to an increasingly digital world.

About the Insurance Governance Leadership Network (IGLN)

The IGLN addresses key issues facing complex global insurers. Its primary focus is the non-executive director, but it also engages members of senior management, policymakers, supervisors, and other key stakeholders committed to outstanding governance and supervision in support of building strong, enduring, and trustworthy insurance institutions. The IGLN is organized and led by Tapestry Networks, with the support of EY. *ViewPoints* is produced by Tapestry Networks and aims to capture the essence of the IGLN discussion and associated research. Those who receive *ViewPoints* are encouraged to share it with others in their own networks. The more board members, members of senior management, advisers, and stakeholders who become engaged in this leading edge dialogue, the more value will be created for all.

About Tapestry Networks

Tapestry Networks is a privately held professional services firm. Its mission is to advance society's ability to govern and lead across the borders of sector, geography, and constituency. To do this, Tapestry forms multi-stakeholder collaborations that embrace the public and private sector, as well as civil society. The participants in these initiatives are leaders drawn from key stakeholder organizations who realize the status quo is neither desirable nor sustainable and are seeking a goal that transcends their own interests and benefits everyone. Tapestry has used this approach to address critical and complex challenges in corporate governance, financial services, and healthcare.

About EY

EY is a global leader in assurance, tax, transaction, and advisory services to the insurance industry. The insights and quality services it delivers help build trust and confidence in the capital markets and in economies the world over. EY develops outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, EY plays a critical role in building a better working world for its people, for its clients, and for its communities. EY supports the IGLN as part of its continuing commitment to board effectiveness and good governance in the financial services sector.

Appendix 1: Implications of selected disruptive forces for the insurance value chain

	Product development and management	Sales and distribution	Underwriting	Customer experience	Claims
Forces	▪ New behavioral, granular data ▪ Disruptive innovation from simpler products ▪ More transparency, information, customer education ▪ Instantaneous information	▪ Strong customer relationships and data outside of insurance ▪ Disintermediation ▪ Stronger customer voice	▪ Instantaneous information and big data ▪ Predictive and evaluative analytics ▪ Greater processing capabilities	▪ Information transparency ▪ Generational preferences ▪ Proliferation of channels ▪ Stronger customer voice	▪ Straight-through electronic processing ▪ Instantaneous information ▪ Enhanced analytics and artificial intelligence ▪ Decreased processing time
Implications	▪ Finer segmentation ▪ Price pressure, margin compression ▪ Greater scale economies, provider consolidation ▪ New products and services	▪ Entry from adjacent markets ▪ Rise in alternate distribution ▪ Integrated omnichannel models ▪ Changing workforce structure (agents, adjusters) ▪ Greater IT investment	▪ Finer segmentation ▪ Shrinking risk pools ▪ Cherry-picking ▪ Development of markets for information ▪ Rise in partnerships to increase data access	▪ Greater responsiveness ▪ Expanded customer knowledge ▪ Potential for greater reputational risk and opportunity	▪ Cybersecurity and fraud risks ▪ Streamlined processes ▪ Economies of scale ▪ Outsourcing

Appendix 2: Participants

Insurers

- Jim Doherty, Senior Director, Life Insurance Group, Office of the Superintendent of Financial Institutions
- Tom Leonardi, Commissioner, Connecticut Insurance Department
- Steve Miller, Chairman, American International Group, Inc.
- Bruce Moore, Audit Committee Chair, China Life
- Ronald Rittenmeyer, Technology Committee Chair, Audit Committee Member, Compensation and Management Resources Committee Member, American International Group, Inc.
- Sid Sankaran, Executive Vice President and Chief Risk Officer, American International Group, Inc.
- Paul Smith, Executive Vice President, Treasurer, and Chief Financial Officer, State Farm
- Bob Stein, Nominating Committee Member, Remuneration Committee Member, Risk Committee Member, Aviva plc
- Stan Talbi, Executive Vice President, Global Risk Management and Chief Risk Officer, MetLife

EY

- David Deane, Partner, Financial Services
- John Latham, Partner, FSO Insurance Tax Leader

Tapestry Networks

- Leah Daly, Senior Associate
- Jonathan Day, Senior Adviser
- Peter Fisher, Partner

Appendix 3: High-level objectives and questions for boards leading transformation

Create a digital strategy that takes a centralized approach to projects, ownership, and expenditures

- ? What is the digital strategy at the group and local levels? How is ownership for strategy and operations defined?
- ? What governance systems are in place for digital strategies? Are there key performance indicators, policies, and guidelines?
- ? How well is IT investment aligned with strategy? Does investment balance short-, medium-, and long-term needs?

Emphasize speed and agility

- ? Does existing digital strategy increase organizational agility? Does it simplify products, services, and processes?

Stimulate innovation

- ? Which disruptive innovations present the most opportunity?
- ? Is the company positioned to capitalize on those opportunities?

Think about brand, reputation, and customer experience

- ? How is the company experiencing and responding to changing customer behavior? How is it addressed at management and board levels? Is there a clear strategy?

Understand changing workforce and new-talent requirements

- ? Where does the company possess leading-edge capabilities? Where does the company need to enhance capabilities? Is the talent strategy aligned with digital and business needs?
- ? Could transformation restructure aspects of the business? If so, what are the workforce implications?

Challenging management on the risks of digital transformation

- ? What are the leading external risks associated with increasing digitization (e.g., disintermediation, competition, loss of customers, etc.)?
- ? How prepared is the company to address internal risks (e.g., security, execution, system resilience, reputation, talent, etc.)?

Endnotes

[1] *ViewPoints* reflects the network's use of a modified version of the Chatham House Rule whereby names of network participants and their corporate or institutional affiliations are a matter of public record, but comments are not attributed to individuals, corporations, or institutions. Network participants' comments appear in italics.

[2] Psychographics is the study and classification of people according to their attitudes, aspirations, and other psychological criteria, especially in market research.

[3] EY, *Insurance in a Digital World: The Time Is Now* (London: EYGM Limited, 2013), 14.

[4] Nathan Golia, "The 80/20 IT Spending Trap," *Insurance and Technology*, October 21, 2011.

[5] EY, *Insurance in a Digital World: The Time Is Now,* 10–11.

[6] John Cook, "Shareholder letter: Amazon's Jeff Bezos on Innovation, Urban Campuses and Mayday Marriage Proposals," *GeekWire,* April 10, 2014.

[7] Open-source technology is technology, including software, that is based on source code that is freely available for anyone to use, redistribute, and modify.

[8] Thomas J. Curry, Remarks at the Annual Convention of the Independent Community Bankers of America (Honolulu, HI, March 4, 2014).

[9] Swiss Re, "Digital Distribution in Insurance: A Quiet Revolution," *Sigma,* no. 2 (2014), 5.