

THE DIGITAL PROMISE:

Operational Challenges, Approaches, and Progress for European Insurers

- Is data still the elusive quirk?
- What is The Digital Promise? Will it solve the operational challenges facing insurers? And are we there yet?
- Are there clear leaders in the digital race? Are smaller firms gaining on their larger competitors?
- Magic mirror on the wall - is my digital strategy the fairest of them all?

Where are European Insurers Going and What is Holding Them Back?

European insurers are faced with one foot in the physical world and a toe in the Metaverse. How can current challenges lead the industry on a path to digital transformation? And what does that look like?

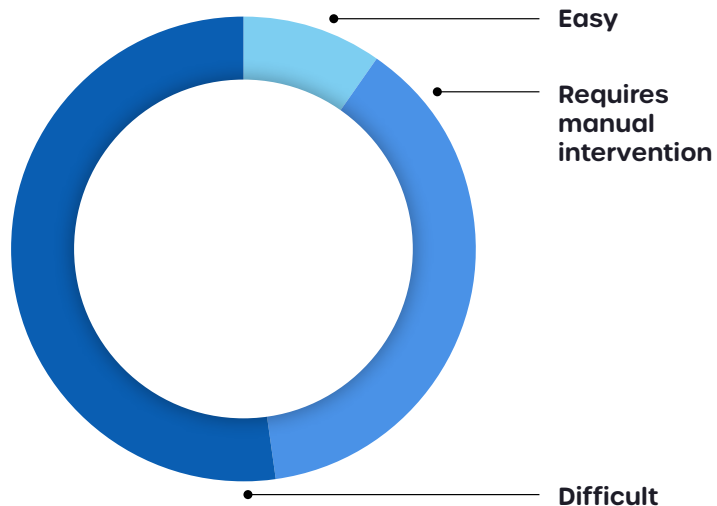
These are the challenges we have explored with leading European insurers across a broad range of asset and market capitalisation sizes, to provide a clearer picture of the goals and obstacles slowing firms down.

Top of the charts

Data maintains its position as one of the chart toppers for insurers of all sizes. Importantly, **data is driving the transformation of the operating model, with 98% of insurers indicating that a digital data strategy was key.** Whether it is access, aggregation, accuracy or analytics, data is still the number one focus.

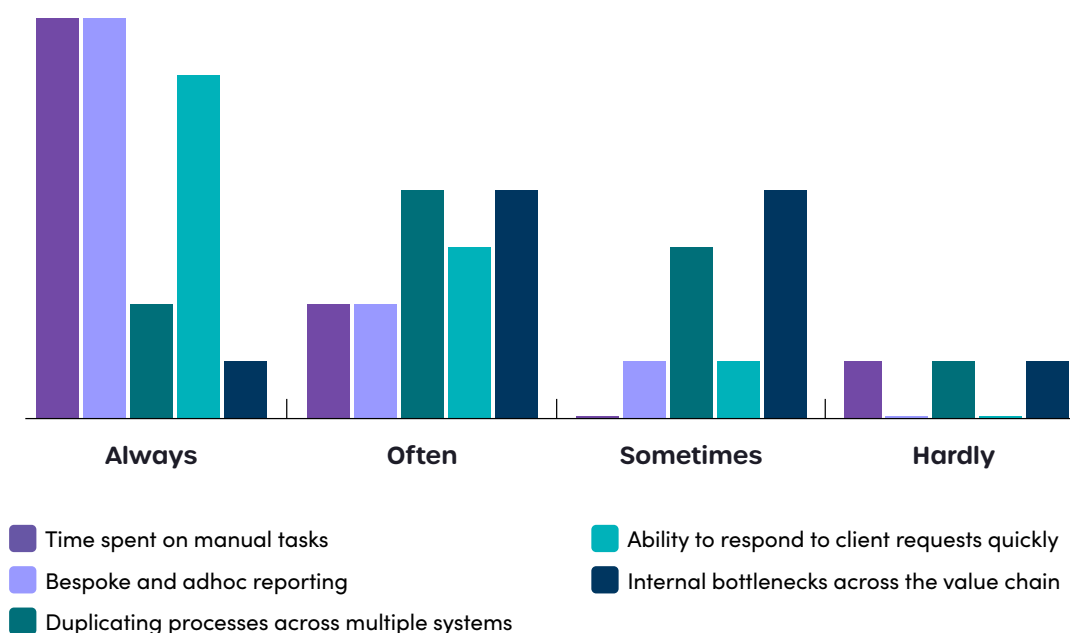
Why is data still the object of so much attention despite being in focus for more than two decades? Because as **90% of our respondents have replied: accessing data is still a challenge.**

With your current operating model how easily can you access accurate investment, product and business data?



Data is an industry linchpin, driving the need for and development of more digitally automated operating systems (and forming the basis of technology transformation such as cloud migration). **90% of current operating models do not support future business needs**, with insurers identifying the key constraints over the past three years to be: inadequate infrastructure, scalability, and supportability. These shortcomings will need to be addressed quickly if firms are to mitigate the immediate pain points of internal bottlenecks, process duplication, and slow responses to client reporting requests.

How frequently do you find the business managing these common operational challenges?



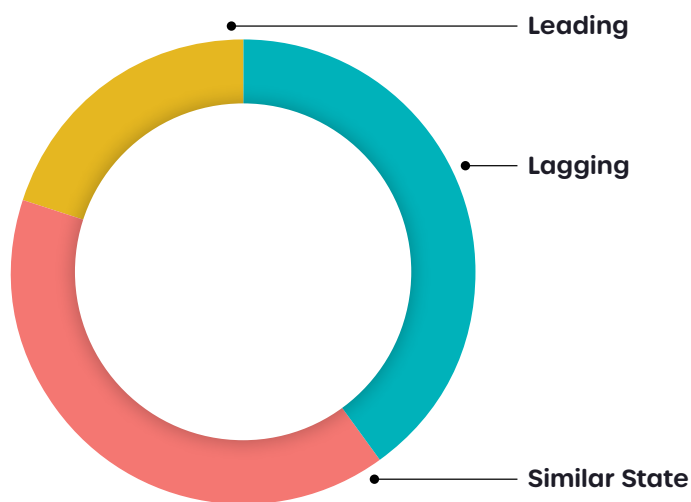
We would add that regulation as a key challenge, fits within the context of data access, as the biggest driver in new regulation is sourcing the data and producing reports.

Not surprisingly, the industry has indicated that becoming digitally native is a core strategy (74%), which in turn places an increased emphasis on technology investment, depreciating legacy systems and increasing automation. This aligns with the industry’s expectations that operating costs will increase over the next three years predominantly due to increased technology and data expense, regulatory reporting burdens, and risk and performance measurement costs.

Small to medium-sized insurers see an even greater need for digitalisation as a route to distribution and differentiation.

As for digital readiness – that moment where we step boldly into the lobby of the Metaverse – almost everyone’s estimation of other firms’ progress is either equal to, or higher than their own. **Are the smaller insurers leading the way?** What does that mean for the larger insurers longer-term? Or is the question: **Is everyone overestimating the competition?** Either way, this is positive in our view, as it means that the focus on change remains high, and investment in future technology should continue.

How would you rate your firm in digital readiness versus your market competitors?



What are the barriers to reaching a digital and operational Nirvana and freeing insurers to focus on product innovation and growth? Survey respondents cited operational challenges across the following areas:

1 Middle office functions

2 Regulatory reporting

3 Risk and performance

As a result, many are likely to look to managed services in these areas to focus their own teams on value-add activities related to product innovation and growth – and to support the continuation of their digital journey.

How does the view of the digital and operational landscape differ by industry market segment? What are the key obstacles facing smaller versus larger firms? Are the goals the same across all segments? Is there one view of Nirvana? Let’s explore in more detail.

The Broad Landscape Facing European Insurers

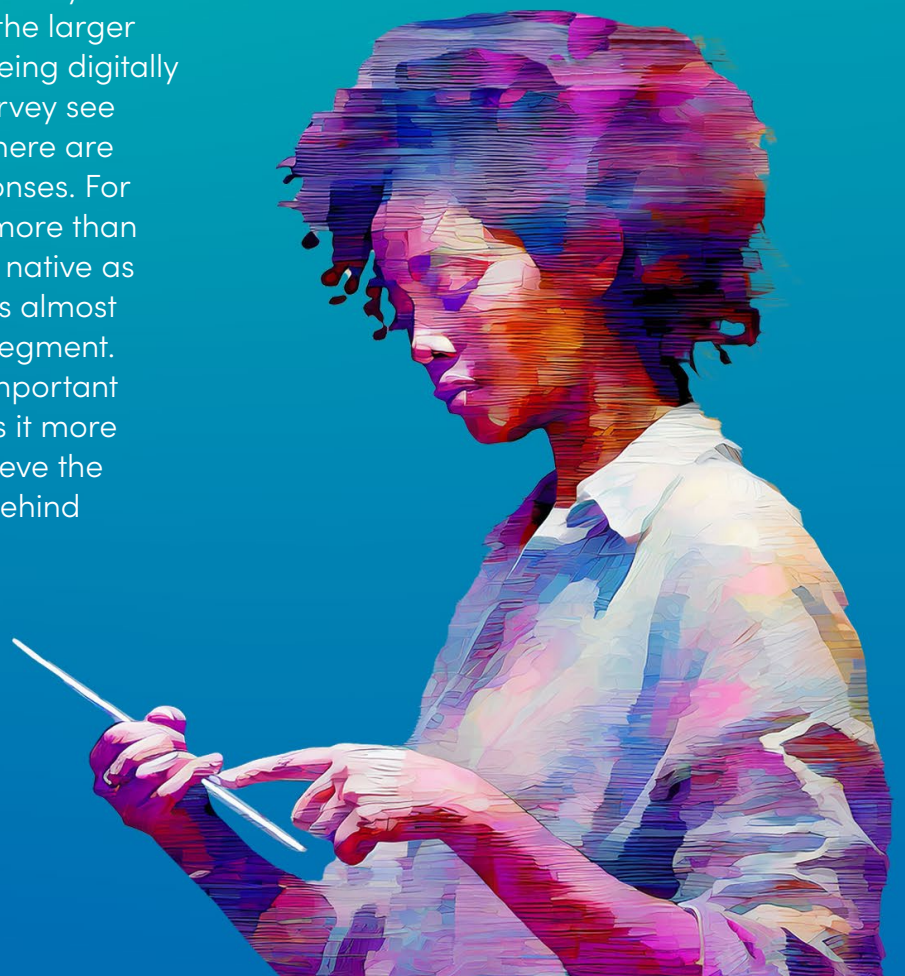
In a clean sweep, **100% of firms see the cost of IT increasing over the next three years**. This is not surprising when we look at the extensive list of challenges the industry has highlighted: regulation, streamlining processes, innovation, data, and cost reduction.

However, 90% of firms do not feel their current operating model is fit-for-purpose to meet these challenges. Digging a bit deeper, firms with on-premise (on-prem) technology shared the primary challenges of inadequate infrastructure, supportability, cost inefficiency and scalability (across all firm sizes).

While all firms struggle with bespoke and ad-hoc reporting, the greatest level of manual intervention (80%) was reported in the 10-50bn segment (vs 50% for firms of 0-10bn in size). Again, we see firms of 10-50bn struggling more with process duplication across multiple systems, as well as more issues with internal bottlenecks vs their smaller counterparts.

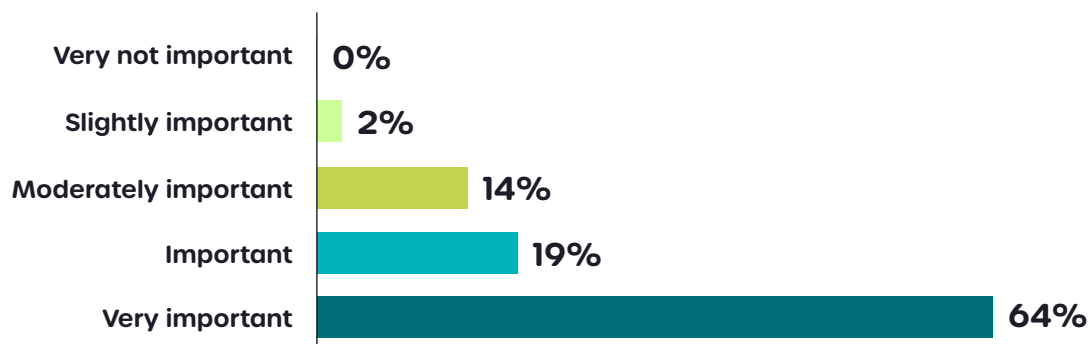
Larger insurers, in particular, are at a disadvantage with their on-prem technology.

We can glimpse a bit more into the reality of the larger insurer's digital journey and success when we look at how the larger firms rate the importance of being digitally native. While all firms in the survey see this as being very important, there are some key nuances in the responses. For insurers of 10bn+ only slightly more than half considered being digitally native as important or very important, vs almost 90% of insurers in the 0-10bn segment. Does this mean that it is less important for larger firms? Or in reality, is it more difficult for larger firms to achieve the desired outcomes and leave behind legacy on-prem systems?



The response around how important a strategic data strategy is, perhaps shows the area of greatest potential improvement for the largest firms of 50bn+, as only around half rated this as important or very important, versus almost 90% for the rest of the industry. This aligns with the issues large firms face with reporting, meeting new regulatory requirements, and accessing accurate analytics.

How important is a strategic data strategy to your target operating operating model?



Who is ahead on the road to The Digital Promise?

The majority of larger insurers see themselves as lagging to their competition with regard to digital readiness, despite having a mature digital strategy. In contrast, a much lower proportion of smaller insurers characterise themselves as lagging, which indicates they are very focused on their digital evolution, often using a transition to SaaS as a platform for further digital transformation.

The larger insurers, while well advanced on their digital journey, are clearly not yet reaping the rewards, which indicates this is a long and arduous transformation for the largest firms.



How are Smaller Firms Fairing in the Quest for a Digital and Operational Utopia?

While size matters, there are some advantages to being smaller (while not necessarily being small). Some of the benefits we can see are:

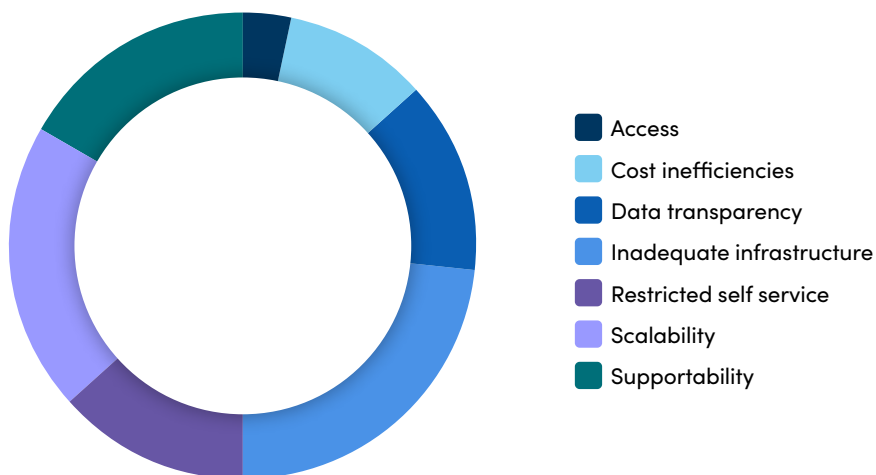
- ✓ An early shift to a SaaS model
- ✓ Fewer internal bottlenecks
- ✓ Less duplication of processes

From a strategic perspective, smaller insurers see being a digitally native business as critical to maintaining a competitive advantage. In line with the focus on their digital strategy, firms from 0-10bn see having a strategic data strategy as essential for their operating model.

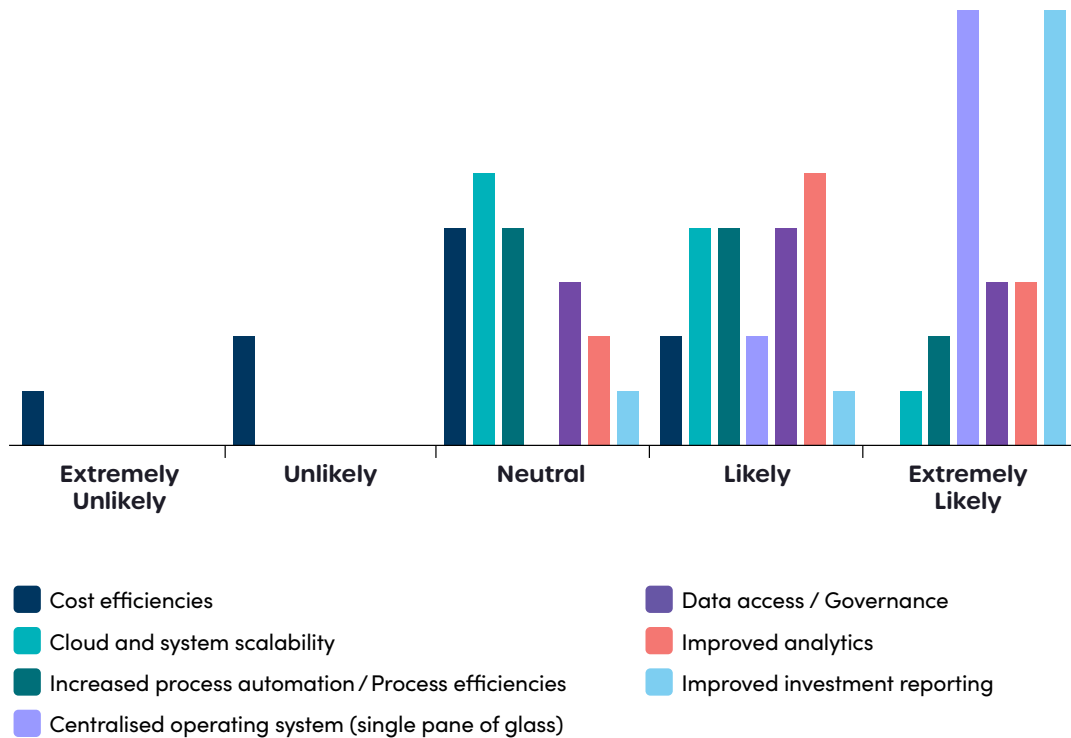
What are the advantages these smaller firms are seeking in their digital operating model? A continued focus on competitive differentiation – with a clear focus on bringing new products to market with speed – to build and maintain a competitive edge.

Smaller firms, with less legacy constraints can embrace a new digital operations model quicker and can use their size and flexibility to their advantage. Those with a SaaS technology base have the additional advantage of greater focus on the core of their business: product innovation and client focus – versus those that still support complex on-prem technology stacks. Every little bit of commercial, product and client focus counts in gaining the edge.

If your current operating model is on-prem, what are the top 3 issues the business has experienced in the last 3 years?



With these challenges in mind, please rank improvement areas that would help to increase the likelihood of winning more business?



Unsurprisingly, because of this digital focus, this segment sees data management, IT/technology and regulatory reporting and compliance as the biggest cost increases in the coming years.

What is the route to Nirvana for smaller firms?

With the sharp cost increases in IT, data management and their still high level of internal middle office (MO) and back office (BO) servicing, managed services is a clear way to look at reducing costs by leveraging a shared infrastructure while maintaining clear control and oversight of the critical functions.



What are the Essentials to Transforming the Operating Model?

The essentials to evolving the operating model revolve around two areas the industry has highlighted as major challenges.

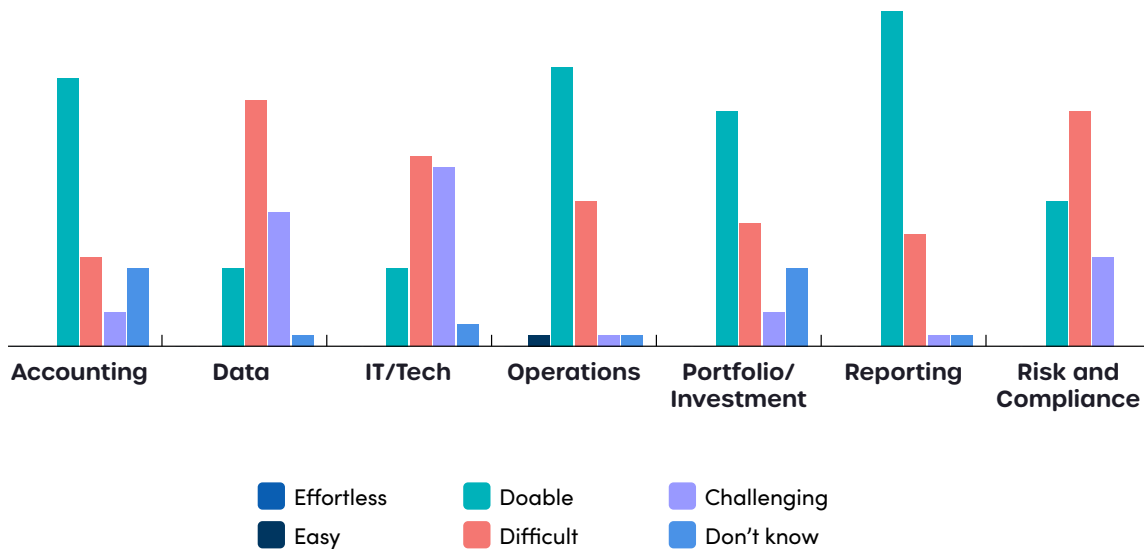
The first is **data**. As we have seen in the responses to the survey – data, data access, accurate data, data for new regulatory reporting requirements – data in all its various guises and disguises remains an area where significant improvement is needed. This is confirmed by the industry’s indication that there is a need for a strategic data strategy within firms. We can also see in the results that data management is an area where costs are expected to increase. What the survey also shows is that some insurers (within the smaller and the largest) are already investing in this area and they are more confident that their operating model is fit-for-purpose to meet the increasing demands of access to data. What is clear is that addressing the data challenge is essential in meeting the challenges identified by the industry – targeted and informed product development, speed to market, improved reporting across all business areas, and better analytics.

The second area driving the transformation of the operating model is **digitalisation**. Digital transformation addresses automating manual processes, integrating systems to improve efficiency, system simplification/reduction, cloud implementation, data access and on-the-fly analytics. We have seen from the responses across the industry that less than a quarter consider that they are advanced in their journey. However, all participants see the importance of being a digitally native business. The Metaverse beckons! But it appears that only a few firms have made significant strides in readiness to move into the new digital utopia.

Insurers continue to be held back by inadequate infrastructure, lack of scalability and supportability. Data aggregation and reconciliation still take too long. Processes are too manual and complex systems create bottlenecks.

With much of the MO and BO remaining in-house, there is also a talent crunch, along with the lack of straight-through processing (STP) automation, putting additional pressure on operations. Not surprisingly, Risk and Compliance as well as Data, and IT/Technology functions see a high level of recruitment difficulty, given the level of manual intervention required and the lack of automation. All of these issues detract from business innovation and growth.

How seamless has it been to source talent in the following operational roles:



How are Insurers Going to Realise The Digital Promise?

The industry recognises the need to become digitally native. Interestingly, with the pressure to resolve the operating challenges discussed in the survey, most respondents feel they are lagging, or at best, level with competitors. The level of continued operational and data constraints indicates that there is still a huge gap to fill. What is also evident in anecdotal discussions with participants, is that the lack of automation and digital readiness is significantly affecting the growth of new distribution channels. This is not just in terms of B2C portals, but firms that focus on private banking and high net worth and ultra-high net worth clients, cannot access transaction heavy segments as their systems cannot handle the volume. Comparatively, for firms that are focused on more traditional insurance distribution channels, they do have the flexibility to onboard new asset classes easily to support new products. Firms with multiple investment managers and multiple custodians and administrators struggle to have a coherent view across their business and struggle to get new products to market quickly.

Digitalisation is critical to support a streamlined, automated operational platform and to provide the needed scalability and flexibility for the quantum level of growth the industry should be striving for.

What does the Future Digital Operating Model Look Like? How do We Get to Operational Nirvana?

We have unearthed the issues stemming from manual interventions across processes, bottlenecks, data access, scalability, supportability – all the abilities and lack of abilities from an operational as well as talent perspective. So, what are some of the key catalysts for reaching utopia?

What do(es) the operational system(s) look like? Is there a better solution to accelerate the digital transformation?

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Learn more by talking to one of our
operational improvement experts

About this Report

This report summarises results from a broad range of European insurers (over 30 firms with more than 40 responses) with responses evenly distributed from smaller niche insurers (0-10bn) to some of the very largest (50bn+). We have heard from C-suite (43%) and senior leaders, from all the key operational and decision-making areas, to provide a clear view of what the obstacles have been and where the industry is going – and the challenges on the way to reaching and sharing The Digital Promise with clients.

To learn more about the complete data set collected in this survey, please contact us info@clearwateranalytics.com



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