

A WNS PERSPECTIVE

# DIGITAL TRANSFORMATION IN INSURANCE: THE M&A IMPERATIVE



# DIGITAL TRANSFORMATION IN INSURANCE: THE M&A IMPERATIVE

## A WNS PERSPECTIVE

According to the 20<sup>th</sup> PwC CEO Survey,<sup>1</sup> the insurance industry has seen the maximum disruption among all sectors. Changing customer behaviors, advancing technologies and over-regulation have taken a toll on insurers leaving them grappling with a less-than-desirable growth rate. The increasing competition from InsurTech companies has also posed a direct challenge to traditional insurance players.

However, the landscape is witnessing a slow, but steady change. Insurers realize that they have more to gain by collaborating with these technology disruptors than considering them competition. This is evidenced by the increasing number of partnerships, funding and acquisitions<sup>2</sup> of InsurTechs by

traditional insurance players in the last few years.

Even as the industry gears up to chase aggressive revenue growth, Mergers & Acquisitions (M&A) and partnerships present a viable opportunity for inorganic growth.

M&As provide insurers a chance to exit non-core businesses and re-define business models to promote more innovation for deeper digital transformations. Such initiatives also offer an opportunity to establish a stronger brand,<sup>3</sup> optimize underperforming portfolios, acquire technology capabilities and gain access to mature markets.

Amidst these strong drivers, the one uncertainty involving deals has been around tax and regulation

although it is not expected to last long. With more clarity anticipated in the months ahead through better tax reforms and softening regulations, the insurance industry's growth initiatives are likely to pick up steam once again.

In this context, let us explore the sweeping changes that are currently underway in the insurance sector.

### ► Consolidation Game

As M&As gain momentum, the insurance industry will look at evolving business models and new technologies

<sup>1</sup> <https://www.pwc.com/gx/en/ceo-survey/2017/industries/pwc-ceo-20th-survey-report-2017-insurance.pdf>

<sup>2</sup> <https://www.pwc.com/gx/en/insurance/assets/pwc-insurtech.pdf>

<sup>3</sup> <https://www.willistowerswatson.com/en/press/2017/11/Value-of-global-insurance-MnA-deals-soar-in-2017>



## Meeting Evolving Customer Expectations

Addressing the needs of evolving digital customers is at the forefront of most insurers' agenda today. As customers become increasingly demanding, inefficient processes, a high number of intermediaries and outdated technology systems come in the way of meeting their expectations. This is also the gap that smart InsurTechs were able to exploit by harnessing technology to get closer to customers.

For traditional insurers that want to quickly gain new capabilities to grow, acquiring or investing in these InsurTechs would make better sense than trying to develop these capabilities internally. A case in point is the acquisition of Meshify, an Internet of Things (IoT) startup, by HSB to roll out IoT-based insurance products.

As companies add more digital specialists to their talent through

InsurTech acquisitions or partnerships, they will be able to meet the demands of their customers better. Practices such as instant application processing, paperless claims, on-the-spot settlements and hyper-personalized services will become the norm. Newer products and services designed for the emerging sharing economy such as ridesharing insurance will gain more traction.







## Impact of Industry Consolidation

As the M&A momentum picks up again, the insurance industry worldwide will see further consolidation. This can lead to two possibilities. With less competition, more collaborations and decreased margin pressures, insurers will finally have more bandwidth to re-focus on acquiring new customers. Microinsurance and specialty products such as crop insurance, motor insurance and health insurance are likely to grow in volume as companies cater to a wide and growing range of risk profiles and preferences.

Economic recovery, clarity in regulatory measures and government policies will also hopefully increase penetration rates,<sup>4</sup> especially in developing and

underdeveloped economies. This will benefit both consumers and insurance companies alike. Better risk coverage will offset the absence of a comprehensive social protection plan while providing the insurance sector with a new growth platform.

The other possibility is the increase in premiums due to the absence of pricing pressures and competitive forces. This will, however, need to be kept in check by governments and regulatory bodies through broadened anti-trust regulations or enforced rate settings.

The introduction of public insurance exchanges can also go a long way in keeping prices under control by providing greater

visibility to consumers.

Empowering customers to compare costs and benefits at a single glance will foster healthy competition. Customers can potentially combine their buying power to bargain for improved benefits as well in exchange for higher premiums.<sup>5</sup> The introduction of the Patient Protection and Affordable Care Act in the U.S. to cover essential health benefits with capped healthcare expenses is an example of such a marketplace.

Overall, the advantages of higher insurance penetration and wider risk dispersal are likely to far outweigh any disadvantages stemming from industry consolidation.

<sup>4</sup> [https://www.global-counsel.co.uk/sites/default/files/special-reports/downloads/Global\\_Counsel\\_ASEAN\\_Insurance\\_Markets\\_Report\\_low-res.pdf](https://www.global-counsel.co.uk/sites/default/files/special-reports/downloads/Global_Counsel_ASEAN_Insurance_Markets_Report_low-res.pdf)

<sup>5</sup> <https://www2.deloitte.com/us/en/pages/life-sciences-and-health-care/articles/health-care-consumers-health-insurance-exchanges.html>



## Collaboration Across the Value Chain

Technology disruption has already had a transforming effect on the insurance value chain through the introduction of automation and robotics for streamlining back-office processes. Companies such as Knip have replaced traditional brokers with their digital counterparts to provide a summary view of policies and premiums.

M&As offer further opportunity for both insurers and technology leaders to collaborate and capture more market share. Take, for instance, the case of a leading European insurance company. In the last one year, the insurer has acquired or partnered with multiple technology startups including a bike insurer, an online rental car insurance platform, and a car communications

specialist to obtain enhanced capabilities.

Many insurers have even set up strategic capital venture arms<sup>6</sup> to invest in innovative technology companies. Tech giants such as Google and Ali Baba have backed multiple insurance startups demonstrating their interest to capture more of the market. It won't be too long before these players also look to acquire regulated businesses to establish a firmer foothold in the industry.

The expected disaggregation of insurance processes is likely to lead to more consolidation as companies look to invest, partner or acquire to minimize the risk of losing their current market positions. Insurance companies can use their

consolidated standing and scale to establish a better connect with their customers. And customers will reap the benefits in the form of increased visibility and personalized services.

M&A offers conventional insurers a reliable way to address their limitations while building upon existing strengths. Many insurers may opt to pursue these possibilities through venture funds, equity investments and partnerships to test the waters before jumping in. However, as digital developments and lifestyle changes open up possibilities for companies to enhance their profiles to become asset managers and risk advisors, insurers will have to aggressively start pursuing all possible growth opportunities to stay relevant.



<sup>6</sup> <https://www.cbinsights.com/research/2016-insurance-cvc-total/>

## About WNS

WNS (Holdings) Limited (NYSE: WNS) is a leading global Business Process Management (BPM) company. WNS offers business value to 300+ global clients by combining operational excellence with deep domain expertise in key industry verticals, including banking and financial services, consulting and professional services, healthcare, insurance, manufacturing, media and entertainment, retail and consumer packaged goods, telecommunications and diversified businesses, shipping and logistics, travel and leisure, and utilities and energy. WNS delivers an entire spectrum of business process management services such as customer care, finance and accounting, human resource solutions, research and analytics, technology solutions, and industry-specific back-office and front-office processes. WNS has delivery centers world-wide, including China, Costa Rica, India, the Philippines, Poland, Romania, South Africa, Sri Lanka, Turkey, UK and US.



To know more, write to us at [marketing@wns.com](mailto:marketing@wns.com) or visit us at [www.wns.com](http://www.wns.com)

**WNS**  
Extending Your Enterprise