



Leaving the 'Valley of Uncertainty' - and what's next

Interview with Jörg Mußhoff – McKinsey&Company

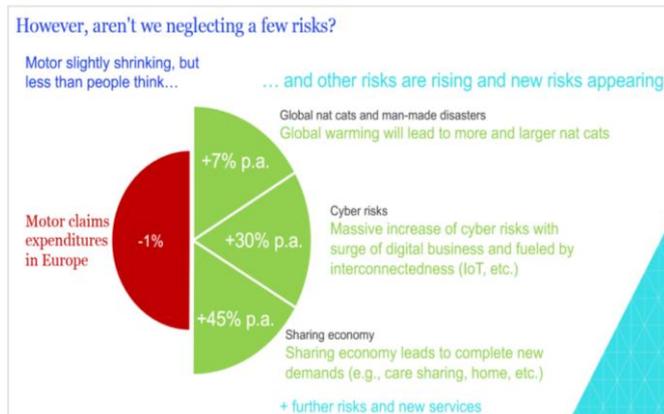
By Roger Peverelli and Reggy de Feniks

Only a few years ago, the insurance industry was still in 'a valley of digital uncertainty'. Today, we see a different picture, and many players in the industry are starting to deliver real impact with digital technologies and advanced analytics. In this DIA interview, Jörg Mußhoff (McKinsey) shares some insights on where the industry is going and what steps are inevitable to really take off.

Jörg Mußhoff is a Senior Partner in McKinsey's Düsseldorf office. He leads McKinsey's Financial Institution Practice in the German-speaking countries. He has a long-standing track record of serving insurance companies and other financial institutions. Given the increasing importance of digital platforms and ecosystems, these make up a large part of their current day-to-day work with clients. McKinsey&Company is a knowledge partner of DIA. Jörg Mußhoff was one of the thought leaders who shared his vision at the 2018 edition of DIA Munich. Expect a similar level of keynote speakers at DIA Amsterdam 2019. DIA Amsterdam 2019 will take place on 25-27 June. Tickets are still available. Just click [here](#) to register.

We've read several articles recently that question the digital readiness of the insurance industry. What is your take on this – is the insurance industry falling behind in their digital transformation? Is the digital transformation good or bad for the insurance industry?

Jörg: “The digital transformation of the insurance industry is well underway and will continue to pick up speed. And yes, digital technologies are changing the industry: Motor premiums could shrink dramatically with the advent of self-driving cars and driver assistance. But when looking at real numbers, this is for the years to come only a marginal decline – also given a lot of compensating effects. And more importantly, many new insurable risks are emerging with the advent of digital technologies. These will continue to open new avenues of growth and ultimately stand to benefit insurers tremendously.”



At DIA Munich 2018 we saw many examples of how motor insurance can be reinvented. Or insurtechs that addressed improving coverage for nat cats, cyber risks, the sharing economy or additional service components. We agree there is a lot of opportunity to innovate around the latest tech.

Jörg: “Absolutely. And many companies are reaching profitability. Whereas, a couple of years ago, the industry still lingered in a ‘valley of uncertainty’, the top players are now in a position where they really understand how digital technologies will shape the future of the industry and can drive the right strategies and technologies forward to add value for their customers. I call where we are today ‘digital realism’. Today, we can start talking about delivering real impact.”

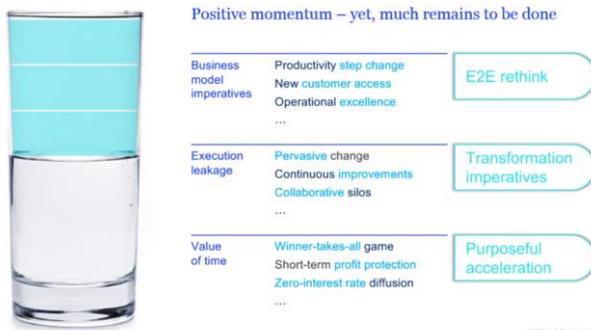
Given the significant benchmarking capabilities you have at McKinsey, could you indicate where we are now, as an industry?

Jörg: “McKinsey has developed a [Digital Quotient](#), which measures an organization’s performance across four key dimensions of digital maturity: strategy, culture, organization, and capabilities. Based on these calculations, the insurance industry is well on its way toward creating tangible change with digital technologies, and actually outpaces the global average in terms of digital maturity. The insurance industry also outranks several other industries, such as automotive and banking.



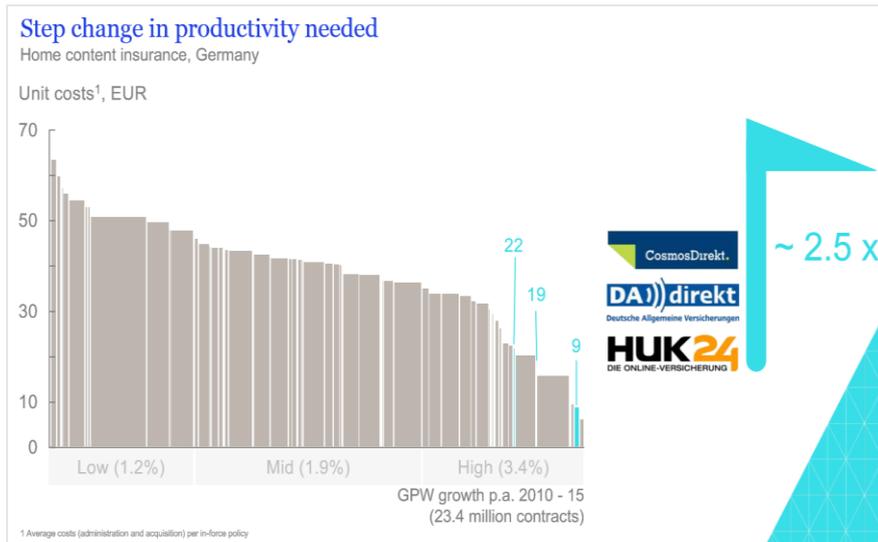
I think many would have argued differently a couple of years ago. Can you expand a bit on how you've reached this conclusion?

Jörg: “Diving deeper into the four key dimensions of digital maturity, we can see that the insurance industry scores particularly high on digital strategy. This score assesses the cohesiveness of a company's shared digital vision and its short- and long-term goals to meet digital business aspirations. The relatively high score here is exciting. But, looking at the other scores, there's much to be done, especially when it comes to rethinking the insurance business model and institutionalizing digital skills and capabilities across the organization.



Sounds like a good lesson for our readers. What would you say is the way forward here?

Jörg: “Compared to other industries, insurance still faces a huge productivity challenge. In automotive or retail, for example, we can see continuous productivity improvements – in the insurance industry not so much. Most of the market shows stagnating productivity, and only a few players are driving real improvements. Nobody likes to hear things like this – but we believe it's actually a huge opportunity to develop a competitive advantage. What are the top players doing to increase productivity, and how are they creating innovative solutions for their customer? A key differentiation we've found is customer access. Traditionally, insurance companies have had very low engagement with their customer, resulting in low contact frequencies and related lower productivities. This is something they will have to rethink as industry sectors blur and the fight for a customer's attention intensifies.”



In more and more markets, we see aggregators taking over large parts of the customer interface. Numbers are high and still increasing. A very high margin game, isn't it?

Jörg: “We see [aggregators](#) shaking up the European market. They often have very strong brands, even compared to some incumbent insurers, and maintain high levels of trust from their customers. Even in the US, where the market has historically been dominated by large direct players, insurers are feeling the heat with new aggregators entering the market. It's important to be aware of these changes in market dynamics. As an insurance player, we need to think about how to deal with aggregators. As an aggregator, we need to think about how to develop that model into a broader ecosystem play.”

Do you have some last take-away for our readers?

Jörg: “We're leaving the valley of digital uncertainty and are entering a phase of *digital realism*. Yet, important operational challenges remain. To create real impact with digital technologies, insurers must place the customer at the center of all new products and services. They must look for new ways of interacting and collaborating across industries, and they must move quickly and decisively to maintain a strong and lasting value proposition for the future.