

Reimagining insurance

The new cloud imperative

accenture



Over the last decade, the insurance industry has moved to action on technology enhancements and cloud services. These moves were initiated by the 2008 – 2012 financial crisis and spurred on by the disruptions of COVID-19. In the wake of the pandemic, cloud-enabled offerings and digital engagement/ experiences quickly pushed customer expectations beyond what traditional insurance products have to offer.

To succeed in this new business climate and grow revenues, insurers need to reimagine insurance beyond simple risk indemnification to more holistic risk mitigation and management. That calls for both external, market-facing shifts and internal changes enabled through a cloud-powered strategy for future-ready technology and operations.

While cloud adoption strategies may be nuanced depending on the insurer's size, market position or book of business, the need to migrate to the cloud is near universal. In this report we explore how insurers can reimagine insurance in the cloud. We identify common challenges insurers encounter—from accelerating the cloud transformation to optimizing a multi-cloud environment.

Chapter 1

Accelerating your cloud transformation

For the insurance industry, cloud has long been more aspiration than reality. In our Cloud Readiness Survey published in July 2019, only 56% of insurance company executives said they had developed and implemented a new IT operating model to support the transition to the cloud.ⁱ In less than a year, amid the disruptions of COVID-19, the lack of readiness was apparent in the correlation between cloud readiness and operational resilience.

Elevating the case for cloud

Elevate the cloud discussion beyond infrastructure and savings on IT run costs. Cloud is a value-based discussion that supports enterprise priorities and drives CEO imperatives:

- **Revenue**

Insurers who lead in software as a service (SaaS), platform as a service (PaaS), and adoption of native-cloud applications show higher rates of revenue growth.ⁱⁱ

- **Customers**

To retain existing customers and attract new ones, insurers must deliver on new demands for cloud-powered digital services that incorporate usage- and behavior-based insurance offers.ⁱⁱⁱ

- **Workforce**

Cloud-based workforce analytics can promote talent retention, by responding to hardships that affect career opportunities, performance, and morale.

- **Environmental, Social, and Governance (ESG)**

“Green cloud” offers the opportunity to make measurable progress with workload flexibility, server utilization, and energy-efficient infrastructure.^{iv}

- **Security**

Data breaches and cyber-attacks, including ransomware, are threatening the security of insurance systems, operations, and customer trust. The security measures and regulatory compliance of public cloud platforms have matured and now offer stronger controls than on-premise solutions.

Engaging key business stakeholders to identify their pain points and business challenges ahead of any technology challenges can help elevate the cloud conversation. Through these conversations, lighthouse use cases with the potential to illuminate the migration path for others may emerge.^v

—Thomas Schelenz, Head of Cloud, AXA Group Operations

Overcoming bubble spend

Upfront costs, or the “bubble spend” that often stifles efforts at cloud migration, can be reduced. SaaS solutions acquired on a subscription basis minimize upfront costs and reduce ongoing hardware and software maintenance costs. Sequencing the migration with a cloud service provider and systems integrator offers opportunities to flatten the bubble and accelerate savings across the enterprise.

Overall, cloud costs have decreased consistently in recent years with continual price drops and structural pricing improvements. Cloud platform providers may now offer co-investments to help accelerate the journey in exchange for committed workload consumption.

Case study

A large U.S. life insurer partnered with Amazon Web Services (AWS) to innovate and meet changing customer expectations. Mass migration to AWS enabled the insurer to reduce its data center footprint to drive business transformation and operational efficiency. The insurer migrated production workloads to AWS, including mission critical functions, such as its data analytics platform, customer portals, and direct-to consumer services. They took advantage of the secure, fault-tolerant infrastructure for prototyping and developing new applications. They also built a data lake on AWS and Amazon EMR to support increasing volumes of data and a robust analytics strategy.



CapEx versus OpEx financial structures

Depending on the needs of the organization, insurers will have to decide how to engineer the financials associated with cloud migration. Bubble spend may not be a barrier for all insurers. It can have its benefits. Capital expenditures may be more palatable than operating expenditures for big technology spend if it can be capitalized.

Insurers can also achieve cost gainshare from making cloud migration part of their discretionary IT spend. While not possible for hosted solutions, incremental spend on legacy systems might also be partially capitalized.

“Carriers need to think deliberately about impact to the income statement when planning a cloud migration. Shifting from a managed data center (hardware acquisition and refresh) mindset to ‘renting’ in the cloud may cause the P&L to shift in unexpected or uncomfortable ways. There may be technology benefits to approaching the migration in a componentized manner or even through business-as-usual resources, but organizing the effort into a larger or more formalized project may enable capitalization of the internal and external resources and should be considered.”

—Adam Edelstein, COO, Munich Re Specialty Insurance

Chapter 2

“Cloudifying” insurance industry platforms

Like many domain-specific systems, insurance core platforms such as Guidewire, Duck Creek, and ALIP are on their own cloud journeys. While they were not created as cloud-native, in the last two years we have seen their cloud-based solutions and services and operational support capabilities greatly enhanced. New capabilities are also being introduced specifically for their SaaS products.

These platforms offer multiple cloud-like benefits to insurers, such as speed to market, agility, insurance-specific product features and solutions, technology updates, automated upgrades, and DevOps, in a measured service model. While they provide rapid elasticity, reliability, and security, they are still evolving their operations, workforce, and processes around these capabilities. For example, ALIP’s cloud-first approach offers insurers the benefits of PaaS and SaaS while maintaining product differentiation and flexibility in licensing and hosting.

As the leading insurance core platforms continue to “SaaSify” themselves, insurers using them can still benefit and accelerate their cloud transformation journeys.

Automated updates

The cloud capabilities in insurance platform solutions now help insurers stay on top of technology advancements and adapt regular improvements to their core systems. Migrating to the same stack of base code with an industry SaaS solution means updates can be rolled out efficiently, with less required of the insurer’s IT teams, and without preparing a separate business case.

Benefits of automated updates:

- Security patches delivered efficiently to all clients
- Simplified compliance with International Standardization Organization (ISO) circular requirements
- Regular access to features tailored for the industry

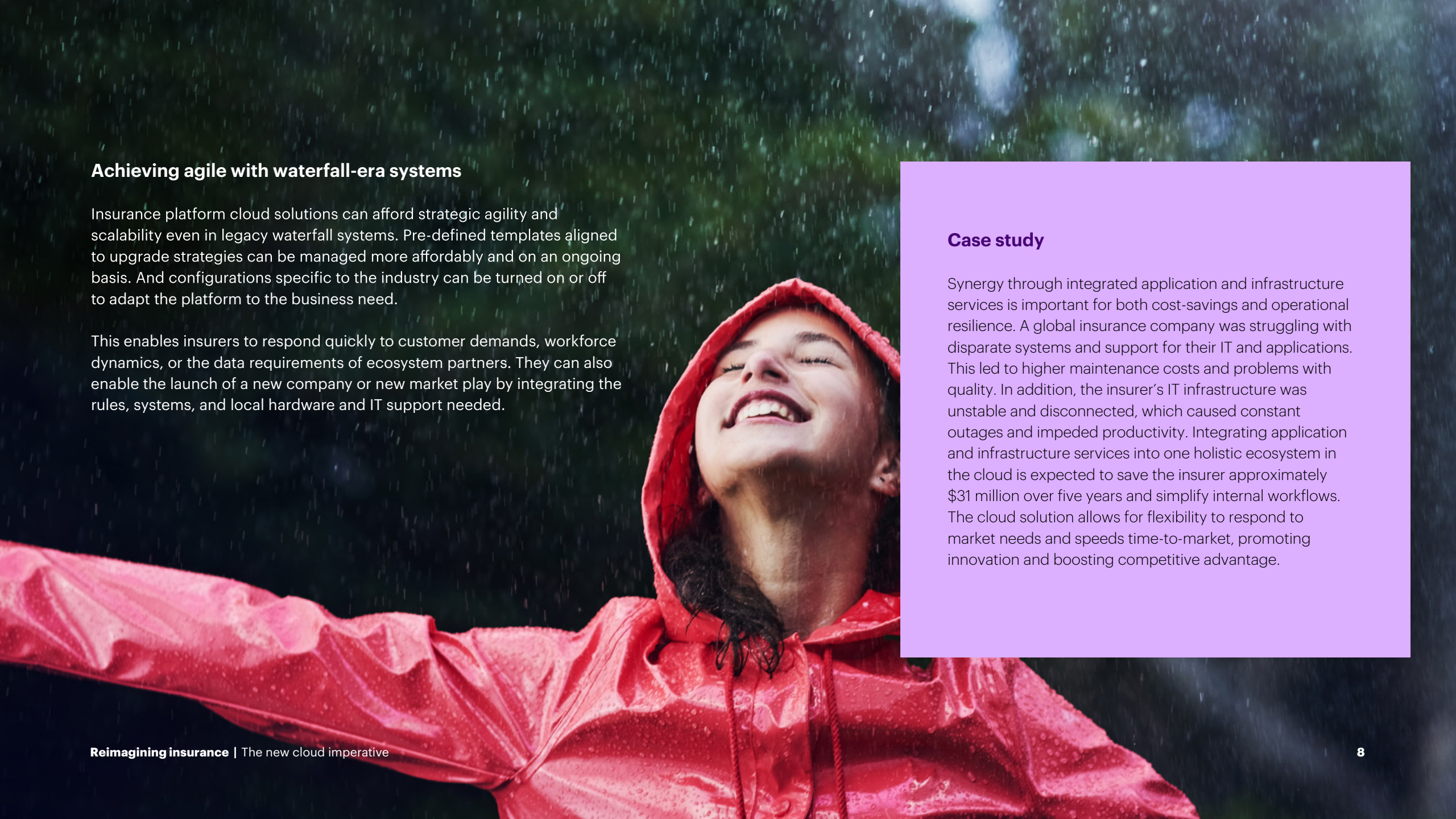
Digital decoupling

There is significant value trapped in the data in many insurers' existing core systems. Decoupling allows carriers to unlock that value and create an experience layer that enables artificial intelligence (AI) decision-making. The growth potential in this approach hinges on standardizing the core with the new platform.

Insurance platform cloud solutions can offer carriers modern features and the API libraries of ecosystem partners to consolidate system footprint while reducing overlap and redundancies. They can also enable an optimized customer experience faster and with modern delivery methods.

Case study

AXA Belgium sought a paperless document solution to improve data quality and expedite data entry. A SaaS solution using AWS, Google Cloud and neural network technologies helped automate document reading and data entry for claims, which significantly improved data quality. With this solution, the AXA Belgium team were able to decrease errors from manual entry, increase automation and operational efficiency, and enhance customer and broker experiences with real-time processing feedback. Empowered with deeper insights for data-driven decisions, such as preventing and detecting fraud, they are also better positioned to reduce overall claims costs and expense ratios.

A woman wearing a bright red raincoat is smiling joyfully with her eyes closed and arms outstretched, standing in the rain. The background is a dark, blurred green, suggesting a forest or park setting. The rain is visible as white streaks against the dark background.

Achieving agile with waterfall-era systems

Insurance platform cloud solutions can afford strategic agility and scalability even in legacy waterfall systems. Pre-defined templates aligned to upgrade strategies can be managed more affordably and on an ongoing basis. And configurations specific to the industry can be turned on or off to adapt the platform to the business need.

This enables insurers to respond quickly to customer demands, workforce dynamics, or the data requirements of ecosystem partners. They can also enable the launch of a new company or new market play by integrating the rules, systems, and local hardware and IT support needed.

Case study

Synergy through integrated application and infrastructure services is important for both cost-savings and operational resilience. A global insurance company was struggling with disparate systems and support for their IT and applications. This led to higher maintenance costs and problems with quality. In addition, the insurer's IT infrastructure was unstable and disconnected, which caused constant outages and impeded productivity. Integrating application and infrastructure services into one holistic ecosystem in the cloud is expected to save the insurer approximately \$31 million over five years and simplify internal workflows. The cloud solution allows for flexibility to respond to market needs and speeds time-to-market, promoting innovation and boosting competitive advantage.

Chapter 3

When and how to go big in the cloud

Whether the insurer decides to “go big” in the cloud now or first lay groundwork, being prepared for the sea change is critical. Events that signal it’s time to go big may emerge quickly from an internal organizational push, from external market pulls, or from both directions at once. And insurers are seeing indicators that the time to go big has come.

Finance and risk models and actuarial models are getting more complex. This is an area to focus on and to not build on the local grid. The cloud offers more agility and scalability for these use cases.

—Randy Epright, CIO, Athene

Cyber threats and security breaches are on the rise.

Cyber threats are both pulling and pushing many insurers to the cloud with urgency. Legacy systems are no match for today’s sophisticated cyber threats, such as ransomware, wiperware, and unauthorized account access schemes aimed at stealing customer data.

There are no minor data breaches. Any attack that compromises a customer’s personal or business information or disrupts service erodes trust and threatens retention.

Shifts in the revenue landscape call for disruption and innovation plays.

Going big in the cloud now may also help insurers gain first-mover advantage on emerging revenue opportunities. These revenue opportunities could be seized through a disruptive play in a new market with outsized GDP growth.

Whatever the market, insurers have new opportunity to serve growing demand for behavior-based insurance offers, informed by customer-generated IoT and sensor data.^{vi} As insurers work with ecosystem partners to create real-time experiences for customers, cloud platforms can keep the data flowing smoothly with upstream and downstream partners.

Customers and capital can be found in digital distribution.

Customer-facing innovations enabled by the cloud, especially those focused on product distribution, are attracting the attention of investors.^{vii} This is a critical time to think strategically about that.

Due to changes in the risk adjusted cost of capital, insurers need substantial reserves to be well-rated and to underwrite the new risks faced by their customers. Making innovation investments in the cloud and communicating those in the market can help insurers stay relevant and grow.

Chapter 4

Deterring cloud proliferation

Uncoordinated cloud migrations across the enterprise can lead to fragmentation. CIOs are looking for opportunities to diversify beyond one cloud provider for their in-house infrastructure and technology needs. In the process some are finding business groups from other C-level functions have acquired their own cloud solutions.

Many clouds ≠ multi-cloud

Having multiple clouds operating around the enterprise and managing an optimized multi-cloud environment are not the same. While multiple cloud platforms may enable collaboration across the enterprise and lines of business, they can present risks and challenges.

Problems arise when there are overlapping or conflicting cloud platforms that create licensing disparities or compromise data security. As cloud becomes an enterprise-wide conversation, robust and strategic vendor management becomes imperative in achieving overall business objectives, governance, and compliance.

Optimal cloud cover

The insurance ecosystem is becoming increasingly connected with multi-cloud platforms and multiple vendors. Optimal cloud cover is not about a specific number of clouds. The number will depend on factors such as incremental cost and associated risks, data sprawl, cyber penetration, and downtime. Insurers building future-ready technology and operations will need to consider:

- In the multi-cloud architecture, which workloads can benefit from cross-cloud movement?
- Which workloads would benefit from cloud-native services?
- How can the cloud enable business continuity while encouraging optimal data, security, network routing, and cost management?
- In this growing complexity of web-based cloud platforms, how can the enterprise maintain compliance and governance?

Conclusion

Reimagining insurance as a business of continuous customer engagement means putting AI and data at the heart of decision-making. Only strongly sponsored top-down support for cloud migration and initiatives designed to build a data-driven culture will make this vision reality.

The journey will differ for each insurer depending on their existing technology architecture and their maturity state in modernization.

We believe CIOs need to:

- 1.** Accelerate the cloud transformation in an elevated, well-structured approach.
- 2.** Realize value in existing industry platforms; recognizing that cloud perfection doesn't have to impede cloud progress.
- 3.** Strategize the cloud ascent based on leading indicators that the time has come to go big.
- 4.** Optimize a coordinated, programmatic journey to the cloud.

At Accenture we help clients migrate, accelerate, grow and innovate in the cloud. We would appreciate the opportunity to talk with you and your team about how you are reimagining insurance.



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