IDC PERSPECTIVE

Digital Transformation in AXA Spain

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EXECUTIVE SNAPSHOT

FIGURE 1

Executive Snapshot: AXA's DX Journey

Most organizations involved in a digital transformation (DX) journey are defining a road map of initiatives, starting with the implementation phases, and prioritizing the ones that will bring more benefits to customers. But where exactly are they in this transformation journey? What are these companies doing? How are they structuring and organizing this transformation? What are their challenges and lessons learned?

Key Takeaways

- AXA's focus on conducting pilots is considered by IDC as the best way to test a transformation idea in coordination with agile methodologies, allowing the company to identify early failures.
- Robust actuarial models are behind AXA's value proposition in order to define "minimum viable insurance," meaning the minimum insurance that the company can offer to customers to satisfy their expectations and needs.
- IDC found that proper follow-up on DX initiatives requires clear goals to be achieved with this transformation and the definition of quantitative indicators to measure progress.

Recommended Actions

- Business lines must be involved in innovation initiatives. A good way to engage the business is by communicating and sharing with them the success of the previous pilot.
- Accelerators and incubators are invading the market, but companies have to find their own way to incorporate innovation following cultural and organizational structures. Companies need to develop their own innovation strategies.

Source: IDC, 2017

SITUATION OVERVIEW

Across industries, we are seeing IT dramatically change how organizations run their businesses. In an era driven by accelerated innovation — built on the four technology forces of IDC's 3rd Platform (i.e., cloud, mobility, Big Data analytics, and social business) — we have seen the adoption of technology move from bespoke solutions for mainly large corporations to virtually unlimited computing power using this technology from the comfort of our homes, schools, and social environments with the arrival of the smartphones. The democratization of technology and demanding, tech-savvy customers are forcing companies to embark on a digital transformation journey.

There is a need to transform the traditional business to maintain relevance in the market and to serve customers with higher expectations; they want to interact with companies in a more dynamic or intuitive way — at any time or place, and with personalized offerings and services that satisfy their specific needs.

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Many companies are establishing their own drivers for digital transformation, with multiple variations from one company to another: increase revenue, reduce cost, improve customer experience, or a mix of all of them. But regardless of the driver, they face similar issues in defining organizational structures, collaboration approaches, employee engagement, and metrics/key performance indicators (KPIs) used to measure digital success.

Transformation and innovation in insurance is still a little bit behind the finance sector, with insurance having been considered very traditional for many years. Customers used to have agents to interact with the insurance company. However, there are many use cases in this market that can leverage digital technologies such as Internet of Things (IoT), artificial intelligence (AI), and mobile applications, offering customers personalized products and services. Insurance companies are more prepared to provide these services with accurate actuarial techniques relying on open data and Big Data technologies, and they are partnering with start-ups and insurtechs in this ecosystem.

ADVICE FOR THE TECHNOLOGY BUYER

To move up the maturity ladder, organizations must prepare and educate their businesses and IT stakeholders on the importance, impact, and benefits of DX across the organization. DX is not just another technology trend — it is a critical business priority for many CEOs and their leadership teams. The fact that majority of organizations are still in the early to medium stages of maturity shows that DX is not as simple as buying a technology solution. DX requires organizations to radically rethink how they do business.

Organizations will need to focus on developing their vision and strategies for the DX of products, services, and experiences to deliver value to partners, customers, and employees. Additionally, organizations need to leverage digital technologies to transform processes and operations to deliver world-class experience across products and services to customers and the entire ecosystem. Harnessing the real value of data in a secure environment and personalizing customer experience are some of the aspects organizations need to start focusing on if they wish to move in the right direction.

Insights

Company Background

AXA Spain is a large insurance company – about 2,500 employees, total turnover of more than €2.3 billion in 2016, 2.5 million customers, and 4.6 million contracts. The company has more than 7,000 points of advice and sales spread throughout the national territory. It is the fifth largest insurance company in Spain, specializing on motor, home, and health insurance. Additionally, financial products and services are distributed by AXA Exclusive, with Direct Seguros being the online and business-to-consumer (B2C) brand (however, these two organizations are out of the scope of this study).

AXA Spain created its open innovation program – AXA Opensurance – at the end of 2015, a result of many years of worldwide experience and immersion on innovation processes. Initially, AXA Group created its AXA Lab in 2013 as an observatory in Silicon Valley, with the purpose of being in contact with the main players on the digital disruption and favor an open mind toward innovation. In 2014, it created the Data Innovation Lab, dedicated to taking advantage of existing information using Big Data techniques. And in 2015, the company created AXA Strategic Venture investing in start-ups worldwide.

AXA Opensurance is led by Oscar Paz de la Fuente, who was appointed after more than 20 years in the company. De la Fuente has always stayed close to the customer, being an active part of one of the first contact center and improving customer experience on post-claim processes.

AXA defines AXA Opensurance as the meeting point between internal and external talent (start-ups, innovation labs from other companies, entrepreneurs, etc.) to create hybrid teams. The goal of the program is to be in contact with other players to transform the company, not only from inside, but also by understanding what others are doing and how they can contribute to business transformation through innovative ideas and applications. AXA Opensurance provides all these inputs to business lines to enable them to prioritize transformation initiatives and define the business cases that will support their development. Commitment and involvement from business lines is key to executing the initiatives suggested.

AXA Opensurance uses the Lean Startup methodology to ensure employee participation, select the best internal challenges, create prototypes, and implement these projects to run the best operations. The model selected to run this area is an ongoing test-and-learn model, and it is unique to AXA. Different companies use accelerators or incubators to bring innovation to the organization, but AXA has opted to define its own methodology.

The role of the insurer in society has traditionally been considered relevant only after an accident happens. When the insurer offers people other services prior to the accident, most people may think that this information will be used by the insurance company to avoid payments in future claims. AXA intends to become a partner to customers, not only during the moment of the accident but also during the entire life cycle of the relationship, by creating new services to keep their relationship alive and keeping customers' trust. Examples of this strategy include:

- **AXA Health Keeper app**. Customers get "fitpoints" by registering their daily activities that can be exchanged for services, chatting online with medical specialists, and providing personalized content to improve health and wellness.
- **AXA Drive app**. Customers are able to understand and improve their driving behavior by measuring how they are accelerating, braking, turning, or surpassing the speed limit. They receive specific recommendations based on their driving styles.

DX Organizational Structure

IDC found that there are typically different approaches to structure digital transformation within an organization: individual contributors, corporate DX offices providing support to the entire organization with or without profit-and-loss (P&L) responsibility, and having digital leaders assigned in existing lines of business.

Its DX approach has representatives in each of AXA's six regions throughout the national territory to be closer to the local ecosystem of start-ups and entrepreneurs, plus the contribution of AXA agents collaborating with Opensurance to test the launched pilots and participate in focus groups. AXA Opensurance is a small business unit whose mission is to connect other business lines with market opportunities; project development, implementation, and business cases are the responsibility of the appointed business lines.

Communication with all business lines is permanent, ensuring new partners in the market are connected with business lines. However, there is a formal governance committee every three months in which AXA Opensurance presents initiatives and business lines present their needs and requirements, deciding which ones will be taken forward on a pilot mode.

IDC agrees with AXA's strategy on piloting as the best way to test a transformation idea, used in coordination with agile methodologies such as Lean Startup; this allows the company to "fail earlier," meaning huge cost reductions and reputation integrity.

The budget for AXA Opensurance is limited, but it allows pilot construction at a small cost, allowing business lines to support the interesting ones for model transformation. Several pilots have been launched last year, with 30% of them finally approved and are now being implemented and developed by the appointed business lines. The first one was completed in 1Q17.

AXA uses a multidisciplinary resource allocation to complete pilots, with the business line project manager committed to the assignment and with low participation from the legal and IT departments. This is because the main goal is to test transformed business models, understanding that the technology will work and will be incorporated in a second stage, and that there will be a separate legal approach to implement the change.

Collaboration Approaches and Employee Engagement

Every four or five months, AXA Opensurance heads #insurtechtalks, joining start-ups and entrepreneurs to explore new developments and trends in the market. There is significant concern for improving customer experience at different customer touch points, and the next pitch will focus on this subject.

AXA Opensurance Spain is collaborating with many start-ups that provide relevant knowledge for further project development to lines of business, for instance:

- AXA is collaborating with a start-up specializing in algorithms to better understand customer behavior, incorporating external information and allowing the company to offer better and personalized products and services with specific prices.
- The company is also working a start-up specializing in chatbots to advise customers 24 hours a day on financial products, asking them specific questions about their financial health and way of thinking.
- Virtual reality is being developed with a Spanish start-up and a business line that has seen a use case to implement this technology, following the experience in Switzerland of an AXA Tech Lab specializing on virtual reality, among other digital technologies. With this technology, AXA allows the customer to experiment and avoid the risk of a car crash.

AXA has found an opportunity to venture into the sharing economy market by providing insurance coverage through collaboration with companies such as BlaBlaCar (for instance, for all the passengers of a trip with no additional cost, as long as at least one on the passengers books the trip online on BlaBlaCar's website). BlaBlaCar benefits from the reliability improvement for its customers, which has been one of the main requests from its social media community.

Robust actuarial models are behind this value proposition from AXA, which is based on an innovative methodology to define "minimum viable insurance" (i.e., the minimum insurance that it can offer to the customer to satisfy his/her expectations and needs) and aligned with actuarial calculations of risks, innovating in an iterative way that will allow customers to scale together with the opportunity.

Furthermore, AXA Opensurance intends to create an ecosystem surrounded by many start-ups, providing confidence to customers. This is about creating connected customer engagement rather than collecting data and providing discounts on premiums. This is achieved through nano-insurance, short-term insurance, on-demand insurance, and so on when the offer to the customer is prompted as soon as there is awareness for a specific need, like with the traveling insurance case.

IDC believes that when organizations want to achieve any kind of change, especially under the innovation scope, it ultimately requires employees to change the way they do their jobs. However, this goal will not be achieved without the commitment and full engagement of the employees themselves.

AXA refers to an increase of employee engagement by incorporating the Lean Startup methodology in the company. Hackathons are another way to engage people from different departments to share culture and the importance of innovation. Participation in application programming interface (API) hackathons is being organized by AXA Opensurance to help people from IT, legal, operations, and other business lines to realize the relevance of open data.

Metrics/KPIs

IDC found that proper follow-up on DX initiatives requires the identification of the transformation goals and quantitative indicators to measure progress based on "SMART" criteria (specific, measurable, achievable, relevant, and time-bound). The point is not about defining a lot of KPIs – it is about performing a proper follow-up of the goals set to ensure that the changes are delivering the expected results, or reacting in case additional adjustments are required.

KPIs are defined by business lines following the specific initiative that is being tested and conducting measurements before the implementation:

- On the chatbot initiative for financial advice, the KPIs defined are related to the **qualification of the lead and percentage of conversion of the lead**, having experimented an improvement on the results with the incorporation of this technology to the process.
- Customer experience is very relevant for the company that a new service has been integrated to measure **customer satisfaction** so that customers can rate the company on the different touch points, including the **Net Promoted Score** (NPS).

The mission is not about generating new revenue – it is about empowering other business units to become autonomous through workshops, and the team can be a best practices case for future innovations.

IDC agrees with AXA on NPS as a key KPI to measure customer satisfaction and predict business growth. This is a proven, straightforward, and easily understood metric used by many in the industry, and it is capable of being incorporated in any channel and in as many touch points as required.

Essential Guidance

AXA has found a good way to ensure that innovations in the market are known to the organization, and there is a clear process to test them in order to create new business models. The creation of the AXA Open Innovation (i.e., AXA Opensurance) with this clear responsibility will ensure there is interaction between internal and external talent (start-ups, innovation labs from other companies, entrepreneurs, etc.), creating hybrid teams to pilot different innovation use cases. Despite Open Innovation, some difficulties remain when it comes to implementation throughout the company; AXA's solution to this problem is to create low-cost pilots and testing them within the company.

The lessons learned by AXA Spain can provide guidance to organizations in all industries looking to implement innovation and digital transformation strategies:

- **Get the commitment of business lines.** Committed business lines is the ultimate goal in launching any initiative. Business lines are normally involved in the business-as-usual activities so it's hard to get their attention, but innovation initiatives can't be implemented without their participation. A good way to engage the business is by communicating and sharing with the business the previous pilot's success to show that the model works.
- **Define your own innovation model**. Accelerators and incubators are invading the market, but companies have to find their own way to incorporate innovation following the proper cultural and organizational structures. Companies need to develop their own innovation strategies, as copying others' models will not guarantee success.

LEARN MORE

Related Research

- *Design Thinking in European Digital Transformation: Consultants, IT Services Companies, and Agencies* (IDC #EMEA42463717, April 2017)
- *Does 3rd Platform Technology Pave the Way for Digital Transformation? Technology Adoption and Trends by Industry in Europe for 2017* (IDC #EMEA41352217, March 2017)
- *IDC FutureScape: Worldwide Digital Transformation 2017 Predictions* (IDC #US42259317, January 2017)
- *IDC FutureScape: Worldwide Digital Transformation 2017 Predictions – European Implications* (IDC #EMEA42239616, January 2017)

Synopsis

This IDC Perspective is the first of a series that focuses on the different digital transformation strategies, approaches, and implementations across various Western European organizations. It focuses on how AXA Spain is approaching innovation and digital transformation (DX) and how these affect its business operations from four different points of view: organizational structures, collaboration approaches, employee engagement, and metrics/KPIs used to measure success.

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