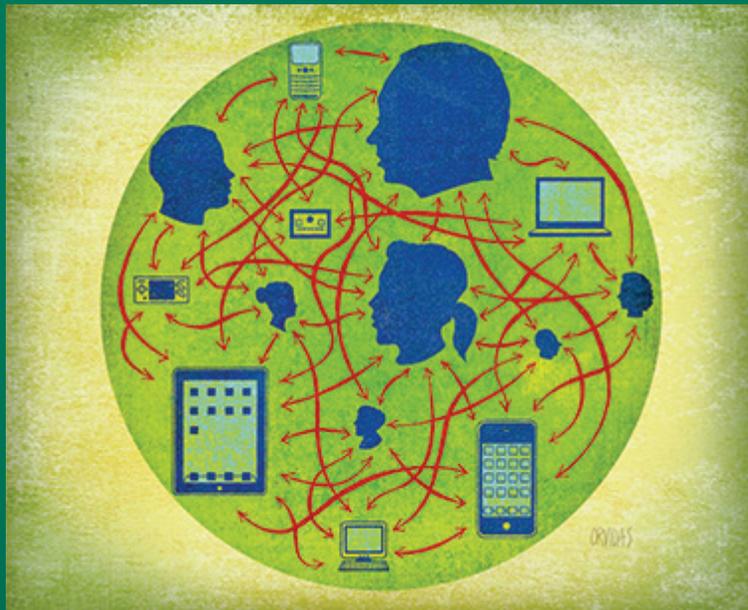


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ALPESH SHAH

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PREFACE

THE EXPLODING POPULARITY AND reach of mobile devices, internet and social media has made ‘digital’ a core part of life for many consumers across the globe. This megatrend is only growing bigger, and exponentially, at that. Digital has been disrupting one sector after another—from travel, to publishing, to music, the list is long. Digital disruption is no longer a possibility, it is a certainty. The Insurance industry is not immune to this megatrend, and digital driven changes are taking place across its value chain. This transformation is both an opportunity and a threat for insurers. As insurers search for ways to grow profitably, they have a unique opportunity to embrace and benefit from the digital wave, which offers a chance to address a lot of the key issues that plague the offline world today. However, it also requires insurers to be agile enough to cope with rapid changes and newer challengers.

When applied to the context of India, it is clear that India is on the threshold of a digital revolution. Though online purchases represent a small component of commercial activity today, it is growing rapidly. However, and more importantly, the internet’s influence on purchase decisions is significantly higher. In some categories, digital influence is already comparable to more mature markets. In Insurance, online term life plans and travel insurance have already picked up substantially in the last few years. Though better pricing is a key reason for buying online, convenience and increased transparency are critical factors as well. Insurers need to realise that just like many other industries, they will need to undergo extensive changes in the way business will be carried out in the digital age. The impact of digital will be felt well beyond just online sales. It is estimated that by 2020, three in every four insurance policies would be influenced by digital channels during either the pre-purchase stage, purchase or renewal stages. It is therefore essential that Indian insurers carefully consider the impact that digital can have on their business and take appropriate measures immediately. The time to act is now.

This report identifies the opportunity and the threat and makes the case that Indian insurers need to act now. It proposes a clear action agenda for insurers and lists specific imperatives for each of its elements. It suggests that insurers should define digital a digital goal post, adapt to a digital mindset, inculcate the right capabilities within their organisations and accelerate their current digital efforts to benefit from this digital opportunity.

This report leverages insights from wide array of BCG India and global initiatives, and BCG’s Centre for Consumer and Customer Insights (CCCI). It also captures insights gleaned from Google commissioned research, proprietary data, and select third party sources.

“DIGITAL”: A GLOBAL MEGATREND

THE ‘DIGITAL ECONOMY’ IS here to stay. Although digital distribution began in the 1990s with the advent of the Internet, it is only in the latter part of the last decade that the earlier predictions on its impact and explosive growth are coming into being.

The ‘Digital Economy’ is Large and Growing Exponentially

‘Digital’ is now a way of life. Today, the world has 6.7 billion mobile phone connections, 2.7 billion internet users and 1.7 billion social media users (as shown in Exhibit 1.1). What this means is that there are more mobile phone connections in the world than humans, nearly 2 out of 5 humans are already online and 1 in 4 is using social media. If one fast forwards a few years, it is expected, that by 2017, the world will have 8 billion mobile connections (1.2 for every human), 3.3 billion internet users (1 in every 2 humans), enabled by the fact that the smart-phone population will be 3 billion (2 of every 3 phones sold in the future will be a smart-phone). This connected online population forms a brand new market that cuts across borders—a market in which the power of choice, information access, convenience and a feeling of community are taken for granted.

Digital is rapidly becoming a layer in the lives of customers across the globe. Both technolo-

gy adoption and the way information is being consumed are changing rapidly. Each new technology sees faster adoption at a mind boggling pace; in 2013, smart-phone sales surpassed basic phone sales for the first time. Of the 1.8 billion mobile phones that were sold in 2013 alone, 968 million were smart-phones. (Source: eMarketer).

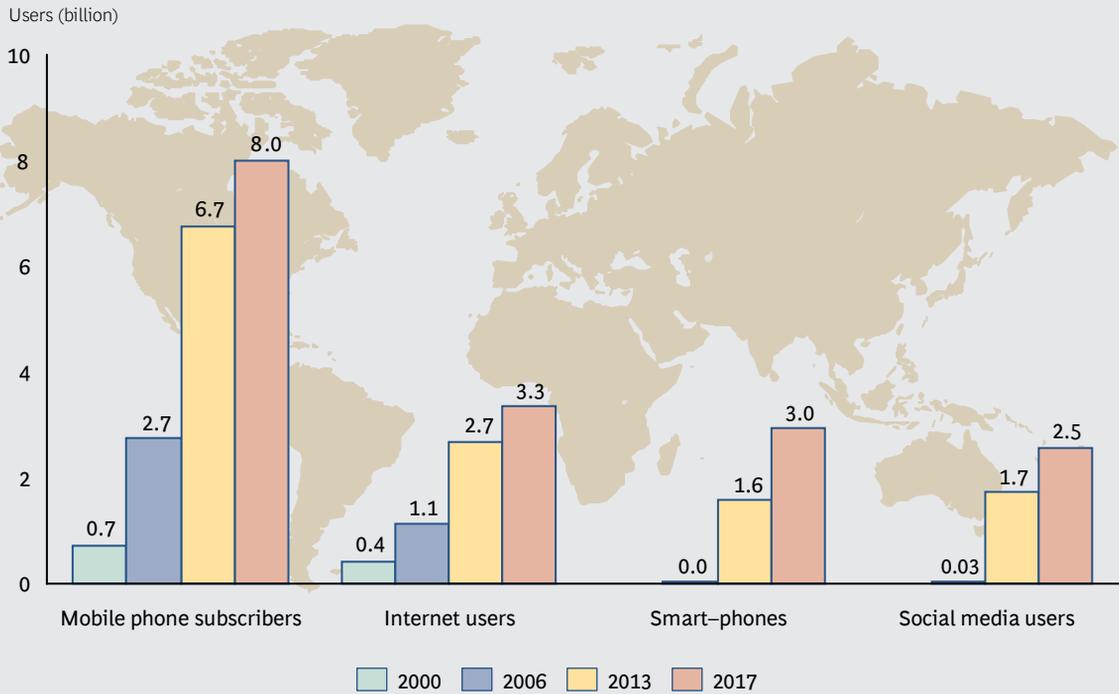
Technology adoption curves are becoming highly accelerated. For example, if one was to take as benchmark a 1 billion usage population, the time to achieve that has been nearly halving with each new technology. What took 110 years for fixed line telephones, took only 49 years for televisions (as shown in Exhibit 1.2). And as one looks at more recent technology dispersions, mobile phones took 22 years while internet achieved the same in 14 years. Even more recently, app-based smart-phones and Facebook have both hit the billion mark in just 8 years. It looks like the “next big one” will be called ‘big’ only if it hits the billion mark in 5 years or less.

Digital Economy is Shaped by the Convergence of Four Mega Trends

The rapidly accelerated technology adoption which is shaping the digital economy is due to the convergence of four mega trends:

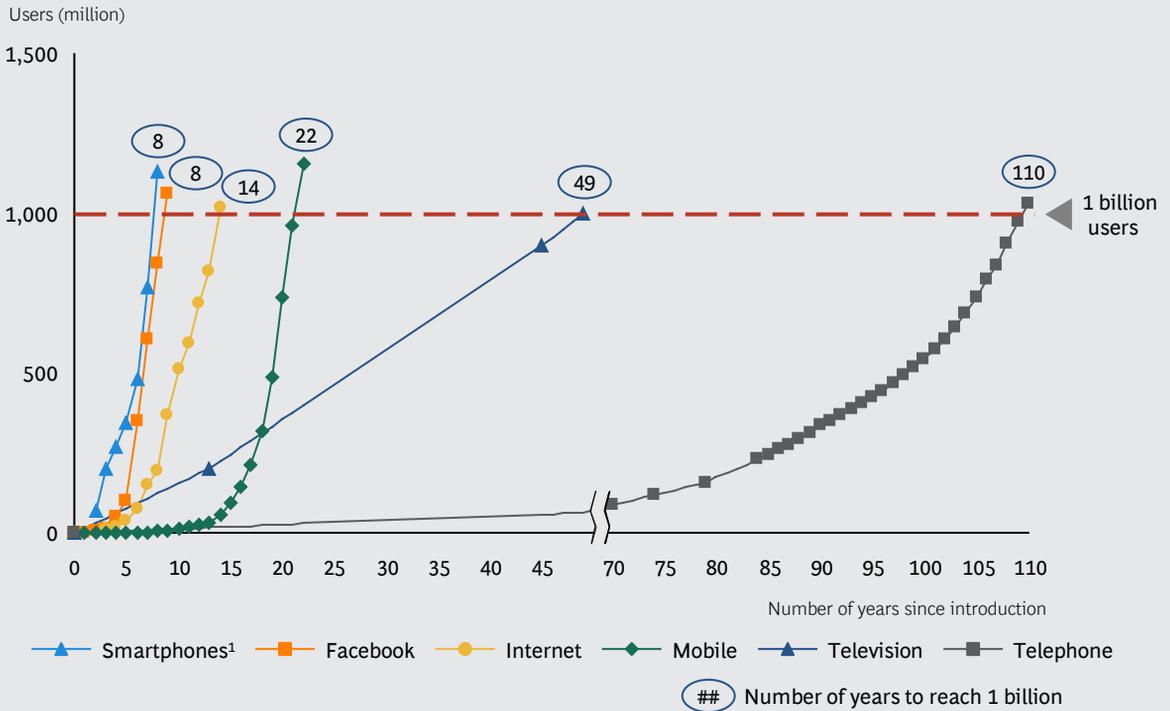
- The world is going mobile

EXHIBIT 1.1 | “Digital” BIG, Getting BIGGER



Source: Euromonitor; Ovum; eMarketer; IDC; EIU; Analyst reports.

EXHIBIT 1.2 | Digital Technology Adoption Faster



Source: ITU; Secondary Research; BCG analysis

Note: Data shown on the graph is only up to the year when user base touched one billion.

¹App based smart-phones.

- Micro-transactions are the new norm
- Man is a social animal
- Big data leverage

THE WORLD IS GOING MOBILE

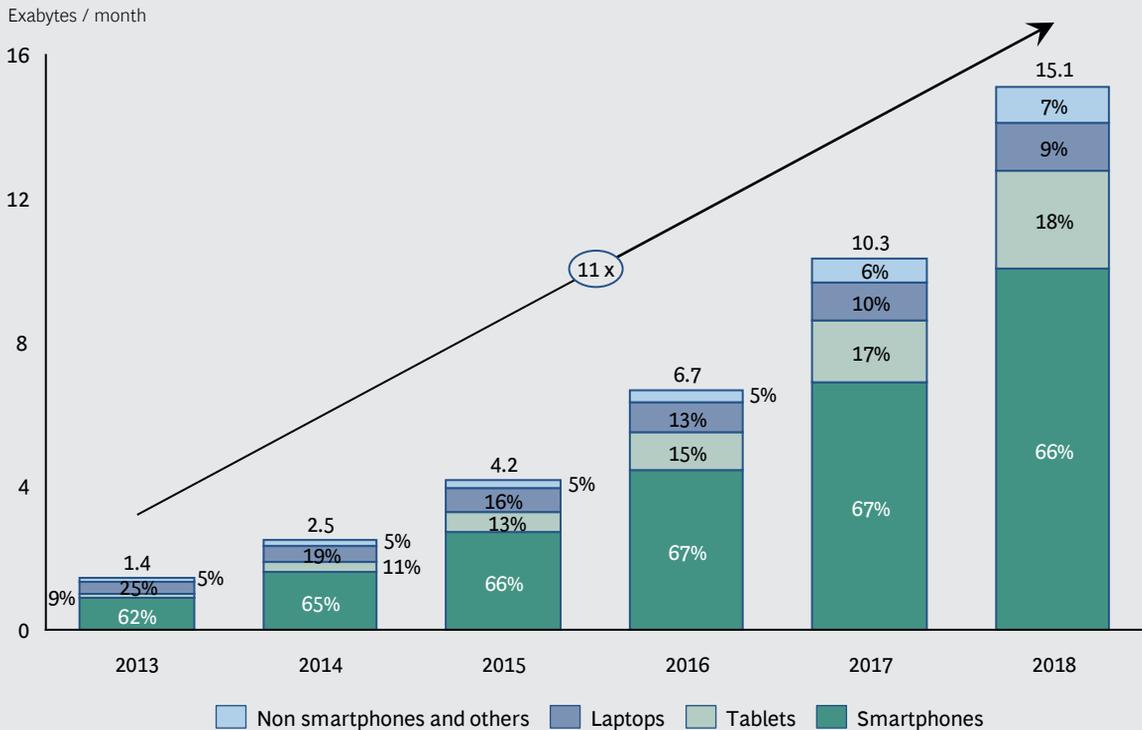
Mobility ensures that customers have portable multi-media devices with Internet access and the ability to make instant decisions anywhere and anytime.

Today, there are more people in the world who own a mobile phone than who have a bank account. Mobile phone subscriptions have grown beyond six billion in a span of about 20 years. In 2013 alone, 1.8 billion mobile phones were shipped globally. It is expected that by 2017 over 70 percent of the forecasted 2.3 billion mobile phone sales will be smart-phones. Overall, it means that the total mobile connections are expected to increase from 6.7 billion today to 8 billion in 2017 and smart-phones from an estimated 1.5 billion today to nearly 3 billion by 2017. (Source: Euromonitor, eMarketer)

Smart-phones are by design Internet-consumption devices. It is hence not surprising that as per the Cisco VNI 2014 study, while smart-phones constituted only 27 percent of the total global handsets in use in 2013, these contributed 95 percent of the total global handset traffic. In 2013, the typical smart-phone generated nearly 50 times more mobile data traffic (529 MB per month) than the typical basic-feature cell phone (11 MB per month). Mobile devices contributed 53 percent of video traffic in 2013, largely driven by smart gadgets.

Thus we see that there already is and there will be an even more rapid shift in terms of the number of people having access to the Internet on their phones. Mobile technologies are a particularly good fit with the digital economy, as they bypass the constraints of deficient physical infrastructure and are always in the 'on' mode. In fact, Cisco estimates that the global mobile data traffic will increase eleven fold, up from 1.4 exabytes / month in 2013 to 15.9 exabytes / month by 2018 (as shown in Exhibit 1.3)

EXHIBIT 1.3 | Mobile Traffic Set to Grow 11 Times by 2018



Source: Cisco VNI forecasts.

MICRO TRANSACTIONS ARE THE NEW NORM

Falling technology costs have radically lowered break even requirements in terms of transaction size. This has allowed companies to conduct all kinds of transactions online, allowing them to sell a wider range of products and services through the Internet than was feasible only through physical platforms. To take an example, in India, one in every two mobile phone top-ups is a ‘chhotta recharge’ (< \$1), with more than two out of three recharges being less than \$2. This is stark even for India, but reaffirms the need and value for smaller transaction sizes. What this also demonstrates is the need for businesses to constantly innovate to be able to serve smaller transactions profitably. Banks have shown that this can be done successfully by moving customers onto more technologically enabled lower cost channels for servicing. Internet and mobile transaction costs less than 1 / 200th of physical branch transaction costs (as shown in Exhibit 1.4).

MAN IS A SOCIAL ANIMAL

Social media is an important social trend; it satisfies a variety of human psychological needs, almost in line with Maslow’s hierarchy beyond safety and physiological needs:

- *Belonging*: Social networks like Facebook, Twitter, Google+ and Instagram enable the human need to connect with people socially.
- *Esteem*: Social platforms allow users to share information, show-off and connect with a wide professional and personal network. Overall, this adds to their confidence, self-respect and sense of achievement.
- *Self actualisation*: Blogs, Tumblr, WordPress and other platforms contribute to the highest need to demonstrate expertise, creativity and moral views, thus aiding self realisation.

As digital media gets embedded into the day-to-day life of consumers, there is a proliferation of information and participation on social media networks. When Facebook crossed one billion users in 2012, it had 219 billion photos uploaded, 17 billion location-tagged posts including check-ins, and 62.6 million songs that were played. YouTube each month sees more than 1 billion unique users, 100 hours of video are uploaded to YouTube every minute and over 6 billion

EXHIBIT 1.4 | Digital Lowers Transaction Costs—India Banking Example

Transaction channel	Typical cost (INR / transaction)
Branch	40–50
ATM	13–17
Call Center	8–10
Offline BC model	4–6
Online BC model	2–4
Internet	0.2–0.5
Mobile	<0.2

Source: BCG analysis and case experience.

hours of video watched each month—that’s almost an hour for every person on Earth. Today there are 1.7 billion social media users globally, and they are in all corners of the world as shown in Exhibit 1.5.

These networks and connections enable customers in particular to:

- Make use of powerful feedback, rating and recommendation mechanisms
- Participate in opinion-sharing about companies, their products and employees
- Spread positive or adverse information quickly

Social media allows companies to create opportunities for advocacy marketing through digital channels. It enables a company or product to interact with customers on a personal level to create socially embedded trust and reputation. As customers increasingly gain access to information from digital sources, the effectiveness of traditional media has declined. Social networks allow for faster and better word of mouth publicity. In the words of Mark Zuckerberg—“People influence people.

Nothing influences people more than a recommendation from a trusted friend. A trusted referral influences people more than the best broadcast message.” And social media offers that.

Customer recommendations and reviews from friends and family are increasingly becoming more trusted sources. Interaction on social networks offers companies a unique opportunity to engage individual customers in product development or brand building, and use the social context to predict behaviour.

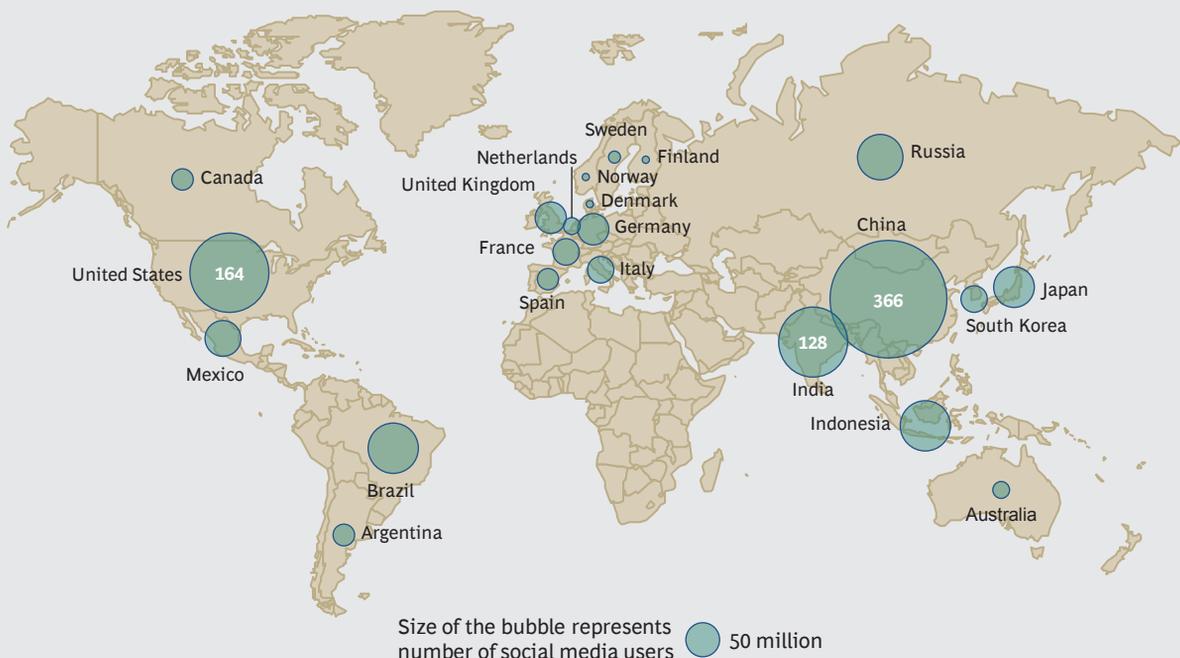
BIG DATA LEVERAGE

Big data technology has made it increasingly easy to acquire granular level data. Granularity of data allows micro-segmentation, customisation of offers, de-averaged pricing, and risk diversification. All of this has been made possible in recent times due to four enablers:

Lower data storage costs: In conjunction with the ability to undertake and centralise data collection across multiple heterogeneous sources, supports improved Big data management.

Increased data processing capability: Open source frameworks like Apache Hadoop for storage and processing on commodity hard-

EXHIBIT 1.5 | Social Media Gaining Ground Around the World



Source: eMarketer.

ware (i.e. on already available computing components for parallel computing), allow for scalability to get maximum useful computation at a low cost.

Enhanced abilities to integrate company and public data: LexisNexis is a service provider that has collected data from across multiple public data sources including credit bureaus, hospitals, auto OEMs, police records, etc. Insurers such as Allstate, in the US, connect their own data with of LexisNexis as well as with the claims data of all insurers. This results in integration of nearly all claims from US insurers with public data and criminal records for fraud detection. This revealed that for specific health care providers, almost 20 percent of claims were fraudulent or wasteful; fraud detection improved by approximately 30 percent, and claim expenses reduced by 2–3 percent. Besides enhancing access to an increased stock of information, this has also created opportunities for using newer tools and applications for marketing, promotion and pricing in three ways:

- Targeted offers based on online, loyalty and transaction data
- Location-based customer offers
- Real-time monitoring of product usage and associated schemes

Augmented capabilities for pattern recognition: Big data access and analytical tools allow for analysis of data points not as disparate entities, but in context. They make it possible to bring together various sources of data to identify patterns and create stories that can be commercially useful. Search engines like Google are also quickly becoming key tools to provide insights into people's interests, intentions, and future actions. Needless to say, such insights can be very useful to businesses. Search engine tools now enable one to understand the customer's intentions and follow consumer behaviour in real-time.

India is No Different—Digital Already Well Underway

India is no different when it comes to digital and already has one of the largest digital user populations in the world:

- 900 million mobiles (Globally #2)
- 200 million Internet users (Globally #3)
- 92 million Facebook users (Globally #2)

We see that India is also following the same pattern as the rest of the world, with social media platforms like Facebook alone already about to reach 100 million users. India's technology adoption curve has been accelerating. If one was to recreate Exhibit 1.2 for India, taking the benchmark of a 100 million usage population, what took 25 years for colour televisions, took 20 years for the internet and more recently mobile phones achieved the same in 11 years (as shown in Exhibit 1.6). Even in the smart-phones market, India is already third largest in the world (behind only US and China). Forty four million smart-phones were shipped to India in 2013 as against 16.2 million in 2012.

A research conducted by The Internet and Mobile Association of India (IAMAI) and IMRB International indicates that Internet users in India has reached 200 million by October 2013, with 130 million urban users. Mobile Internet has more than 110 million users, of which 85 million are urban. Additionally, the survey reveals that over 45 million urban and 26 million rural customers are active users, with more than one in two active urban users engaging in online shopping.

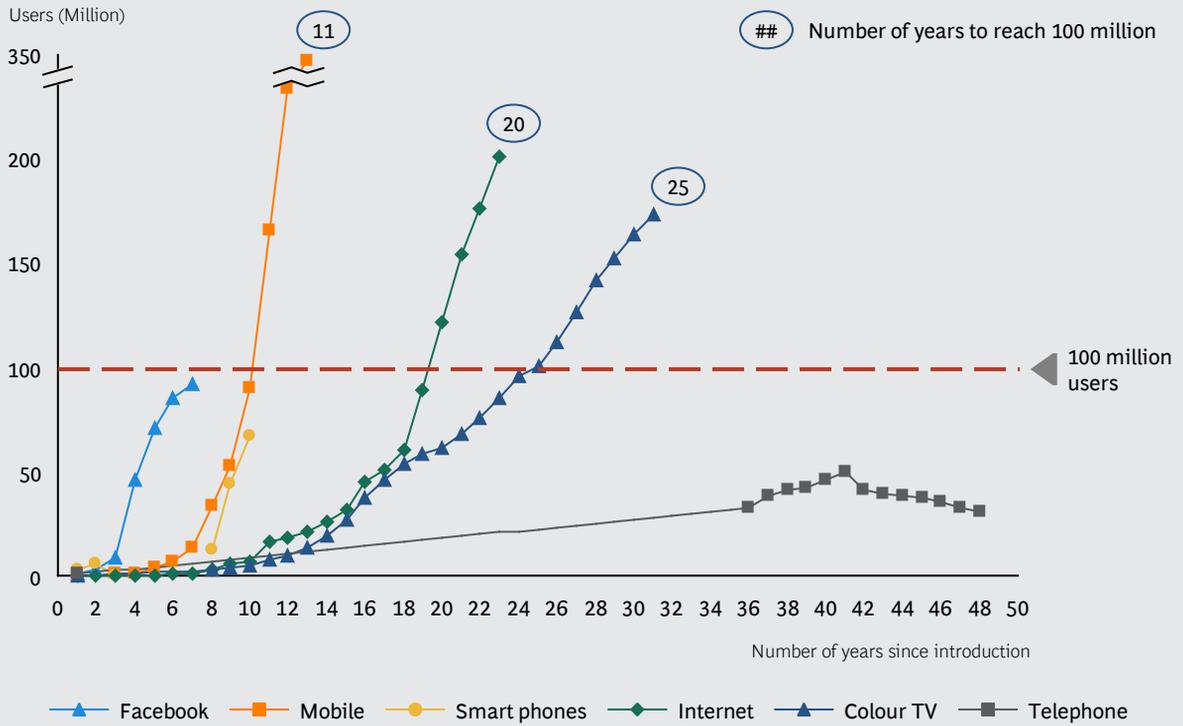
“DIGITAL INFLUENCE” IN INDIA ALMOST THREE TIMES DIGITAL SALES IN INDIA

A 2013 digital influence study for India by BCG's Centre for Consumer Insight (CCCI) shows that one in two urban Indian Internet users acknowledge 'digital influence' in their overall purchase basket (as shown in Exhibit 1.7).

While digital footprint represents how many customers of the product category have internet access, digital influence represents what fraction of the category buyers use the Internet for any pre-purchase, purchase, post purchase or service activity. Digital buyers are those who eventually make online purchases of the product category.

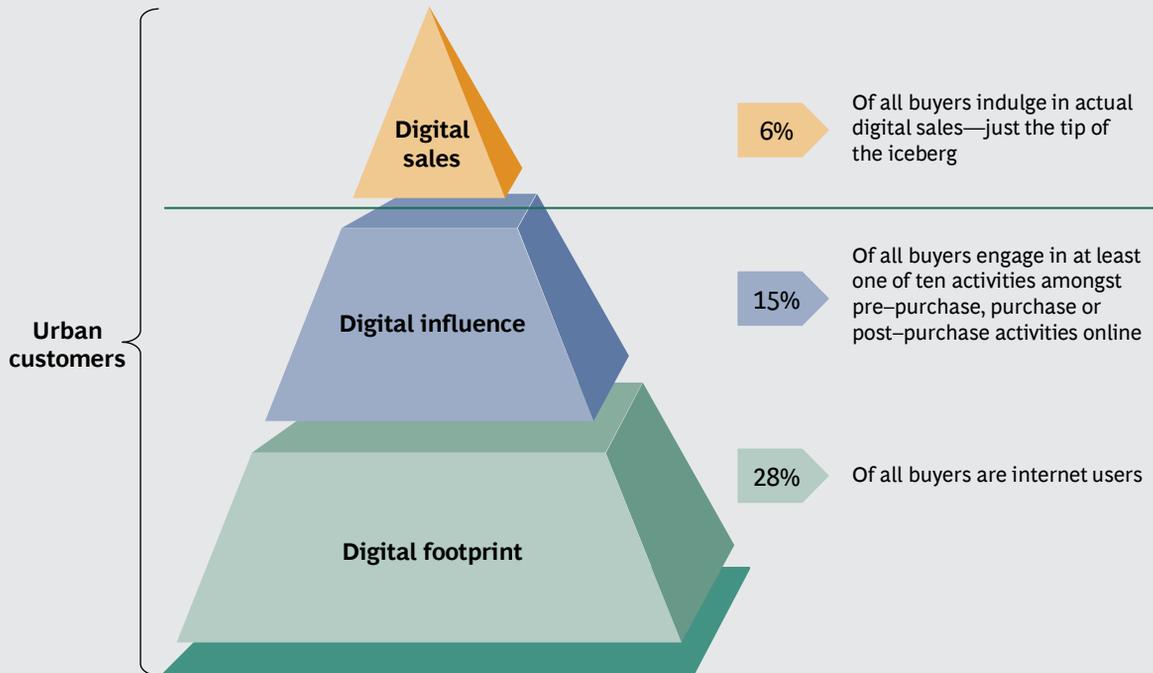
While digital footprint and digital buyers are easy to understand, digital influence has

EXHIBIT 1.6 | Digital Technology Adoption in India Faster



Source: Euromonitor; ISR; ITU; Press search.

EXHIBIT 1.7 | Digital Influence in India 2.5 Times Digital Sales



Source: BCG CCI digital influence study 2013.

been identified as consumers doing any of the 10 “commercial related activities” online. The 10 activities are:

- Pre-purchase: (i) Info search on prices, (ii) Info search on products, (iii) Search for store locations and (iv) Search for discounts / coupons
- Purchase: (v) Online ordering and (vi) Online payment
- Post-purchase: (vii) Troubleshooting, (viii) After sales service, (ix) Buying accessories and (x) Comments / reviews

Digital Already Influences Insurance Deeply

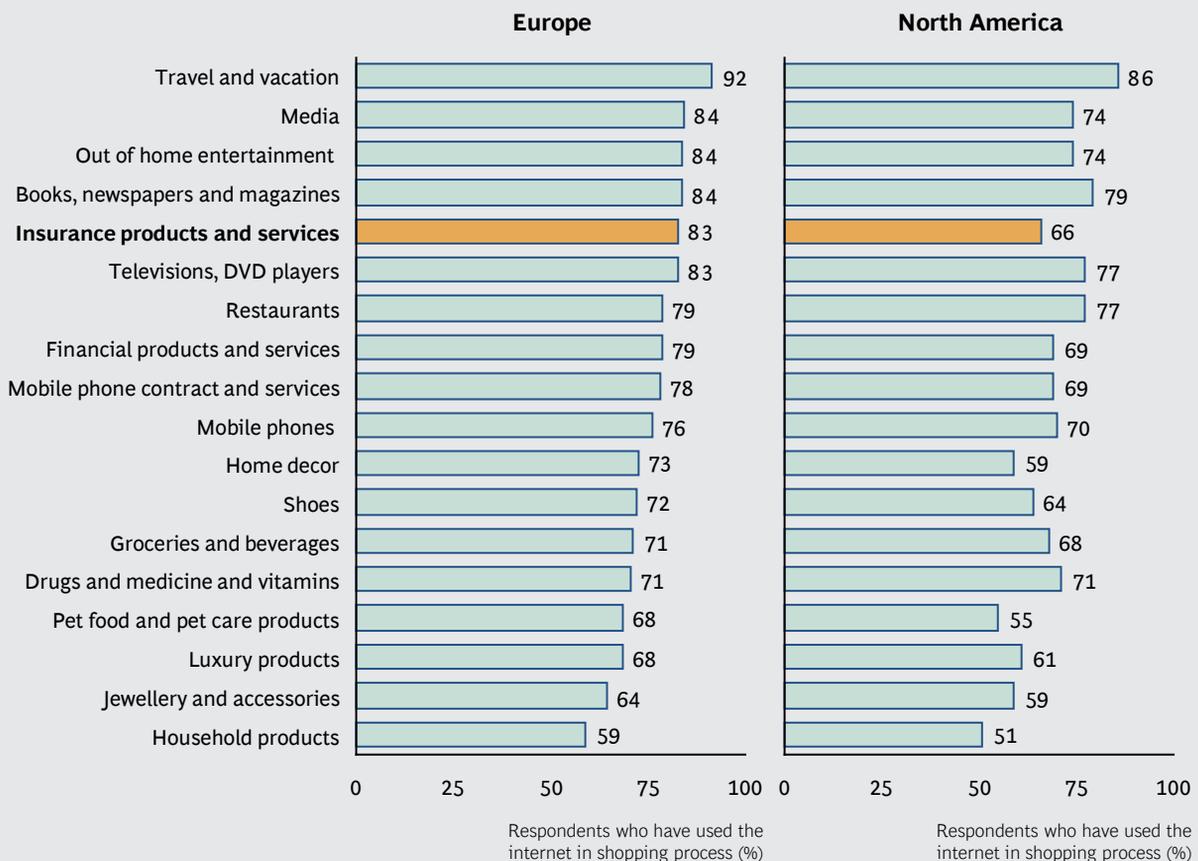
Internationally, insurance has one of the highest percentages of consumers using the Internet to buy and / or research insurance as

compared to other product categories. The BCG Global Digital Consumer Sentiment Survey showed that insurance was amongst the top five product and service categories where respondents had shopped via the Internet (as shown in Exhibit 1.8).

In the US, in the case of motor insurance, digital influence has already reached 75 percent, with over 25 percent of motor insurance sales coming through digital channels. In the UK consumer research (BCG analysis, Datamonitor) reveals that 51 percent of consumers surveyed bought their most recent policy through the Internet. Life insurance digital channel sales in terms of annualised new business premium is already around \$2 billion (4 percent) in the US and around \$500 million (4 percent) in Germany.

As per the BCG CCCI research in India, in the case of insurance, digital influence is six

EXHIBIT 1.8 | Insurance a Top 5 Product Category in Internet Usage



Source: BCG global consumer sentiment survey.

times digital sales in India. While digital sales is 2 percent, the underlying digital influence is 12 percent (10 percent for motor; 12 percent for life; 14 percent for health and 19 percent for travel) and the digital footprint is 31 percent for insurance.

CUSTOMER INSIGHTS INDICATE MOMENTUM TOWARDS DIGITALISATION OF INSURANCE IN INDIA

According to the Google Consumer Barometer 2013, search engines are the most popular touch point for customers seeking information. Growth in Google search queries related to insurance in India has been exponential since 2008 (as shown in Exhibit 1.9), 6x in the case of motor, 4.5x in the case of health and 4.5x in the case of life insurance.

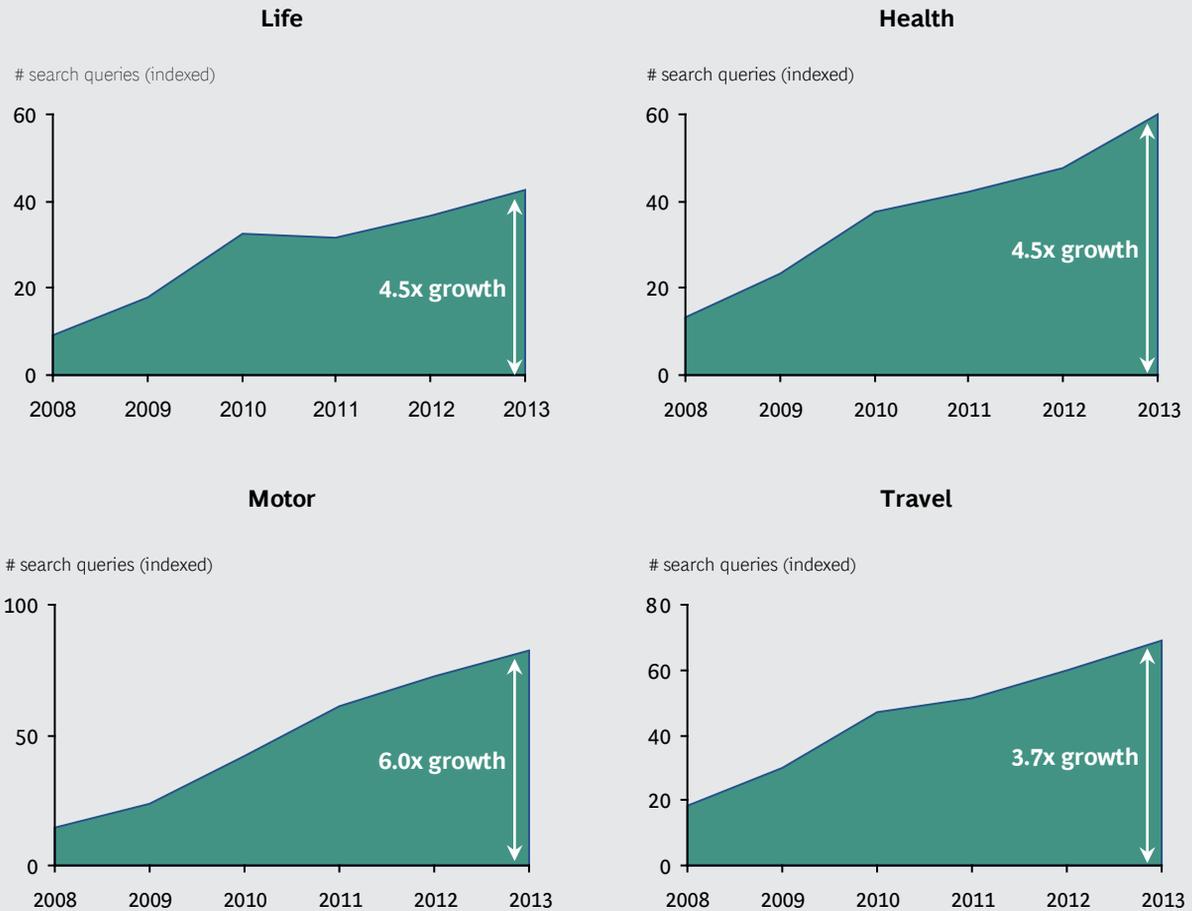
If one looks at the growth in search queries, over the last 4-5 years, while queries on

desktops / tablets have grown 4-6x; queries on smart-phones have gone through the roof, nearly 100x albeit from a smaller base.

The BCG India CCCI 2013 study also shows the already high digital influence across all aspects of the insurance purchase cycle in India. Commensurate with the overall development of the market, usage is higher for simpler products like travel and term life, predominantly for pre-purchase activities (for example, product research or price comparisons); the overall digital impact is also significant (as shown in Exhibit 1.10).

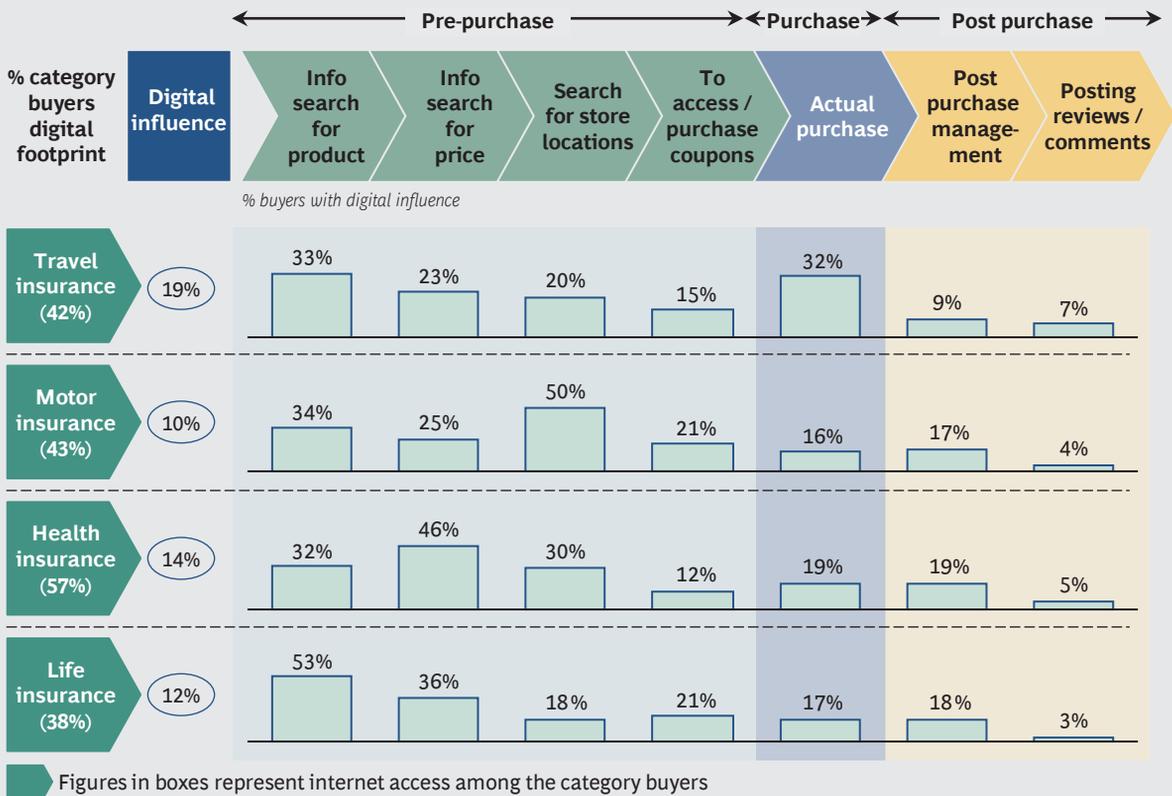
For example, in health insurance, 14 percent of the insurance buyers were digitally influenced (while 32 percent searched for information about the product, 45 percent were involved in price discovery and 19 percent made an order and payment). All of these activities for digitally

EXHIBIT 1.9 | Multifold Increase in Insurance Search Queries



Source: Google search data.

EXHIBIT 1.10 | Customer Research Shows High Influence Across Value Chain



Source: BCG CCCI digital influence study 2013.

influenced customers in each insurance segment have seen an increase in comparison to the 2012 study. The percentage of these customers purchasing online has gone up steadily with health insurance buyers increasing from 13 percent (2012) to 19 percent (2013) and motor also seeing a corresponding jump from 13 percent to 16 percent.

In a short period of time, the Internet has succeeded in becoming the second largest contributor to brand selection, after friends and family. About 52 percent of all polled respondents in the BCG survey claimed that the Internet was instrumental in introducing them to the brand they finally ended up purchasing. This is already higher than the 49 percent who learned about a brand or insurance company related to their purchase category through an agent. What is important to note is that the level of internet influence on higher income categories is even greater.

Summary

The digital economy is here to stay. The internet has gone from being a technical wonder to being a business imperative. Digital is already very big and is getting even bigger, exponentially. Adoption of every newer technology is faster than before. India is no different. The digital wave has hit and is expanding in leaps and bounds. India is already the second or third largest economy on all digital dimensions—mobiles; social media; internet customers etc. Within digital, insurance is a top 5 product category in internet usage globally. Even in India, BCG research and Google experience shows large momentum in the impact of digital on insurance, 5-6x growth in insurance queries over the past 5 years and influence nearly 6 times sales. **Digital is no longer an alternative, it is core and is the new way of life.**

“DIGITAL” IS DISRUPTIVE—WILL DRIVE DISCONTINUITIES

THE OLD WAYS OF selling insurance are, over time, becoming less sustainable. Digital tools give insurers the chance to address key customer issues in the industry to help improve (i) sales, (ii) customer engagement and (iii) efficiency (as shown in Exhibit 2.1) as well as to improve internal efficiency.

Five Disruptive Themes Challenging Business Models Today

Business models are changing with the advent of digital technologies. Experience is quickly becoming less important than it has been traditionally; customers have become more empowered and there is a distinct shift in the balance of power. While insurance needs may have remained the same, customers have become more demanding, wanting to use the channel that is most convenient to them at the moment, leveraging disintermediation and advocacy to select the best options.

Five main themes are causing serious discontinuities throwing up opportunities for both incumbents and new players:

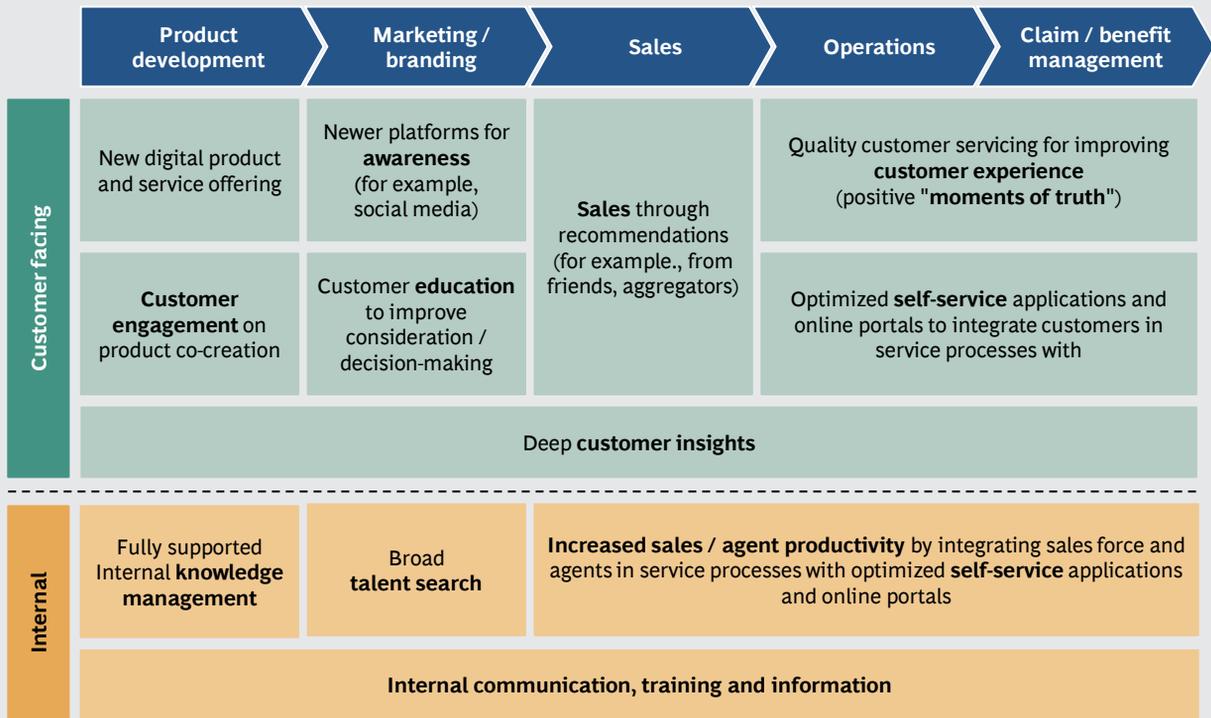
PHYSICAL FOOTPRINT MUCH LESS RELEVANT TODAY

Retail success no longer depends exclusively on an established network of brick and mor-

tar stores. The modern consumer values convenience and value for money above everything else; she / he is comfortable purchasing products without always being able to interact physically with the product / channel. In other industries, some companies already try to serve clients without increasing their physical footprint. Success on the digital platform is conditional to a well thought out strategy and a business model specific to the medium.

Take the example of **Tesco** in Korea, who understood the lives of Korean customers who work hard and have little time for grocery shopping. Google studies showed that 60 percent of Korean consumers use their phones while walking, communicating and waiting. By using digital technology, Tesco placed ‘virtual’ shopping markets in subways. Products were arranged as in a supermarket, with each product having a machine-readable QR code. Customers can now add products to their cart by scanning the code with their smart-phones, enabling purchases via phone (at work, on the subway) and home delivery after work. A customer on her / his way home can place orders at the station while waiting for her / his train to arrive, and have the products delivered home by the time she / he reaches home. Convenience at its very best. Low capital expenditure allowed Tesco to gain a large reach, resulting in a 130 percent in-

EXHIBIT 2.1 | Digital can be Harnessed Across the Value Chain



Source: BCG analysis.

crease in online sales and growth in its market position—with a considerably lesser physical presence than E-mart, the leading player.

In the insurance sector, companies such as GEICO and Progressive, with their direct models with limited physical presence, have consistently been more profitable than the overall market and traditional rivals like State Farm (as shown in Exhibit 2.2).

GEICO in the US is an excellent example of a highly successful direct sales insurance model with 12 million automobile policies in force and 18 million vehicles insured. Their sales come from three different channels:

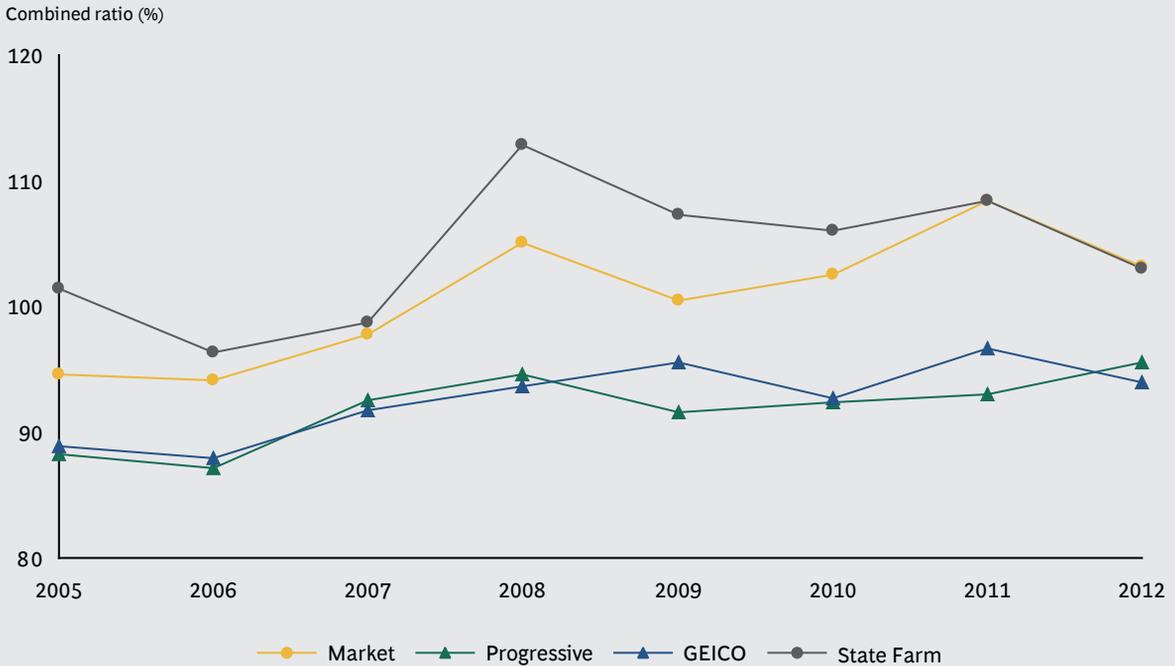
- *Online and phone:* These are the primary channels for sales, combined with a large advertising spend to ensure customer pull in the absence of a large agent channel.
- *A thin network of local agents:* Only three agents service a city like New York, with only 14 offices all across the US compared to over 450 for a player like Progressive.

- *Existing customers converted to sellers:* A unique and highly successful affiliate programme where customers earn commissions by bringing in leads.

Even in India we see that digital allows for more profitable models. The 'Life Insurance Benchmarking Survey Report' undertaken by BCG along with Federation of Indian Chambers of Commerce and Industry (FICCI) reveals that for participating life insurers, direct sales through online channels result in higher ticket sizes of policies, with greater persistency and lower sales costs compared to other channels. As seen in Exhibit 2.3, persistency is decisively higher for the digital channel across the 13th, 25th, 37th and 49th month, compared to any other distribution channel. Additionally, the direct cost of each channel as a percentage of annualised new business premium is lowest for the digital channel at 11 percent compared to the agency channel which is close to 62 percent.

Online aggregator portals like Policybazaar.com, started in 2008, have seen tremendous

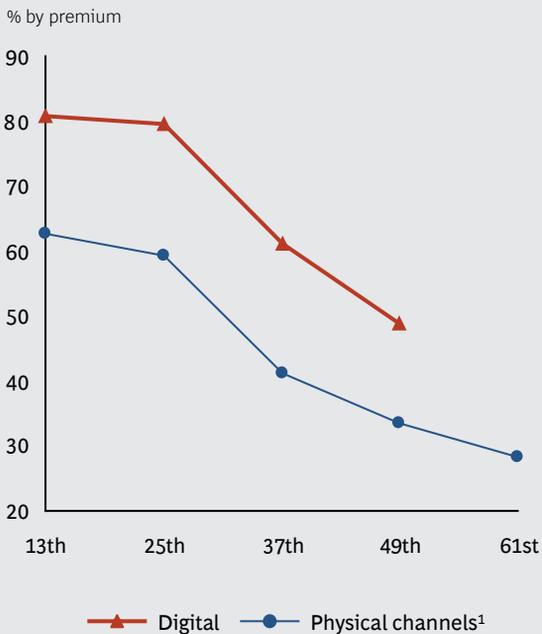
EXHIBIT 2.2 | Direct Players Like GEICO and Progressive in the US Have Higher Profitability



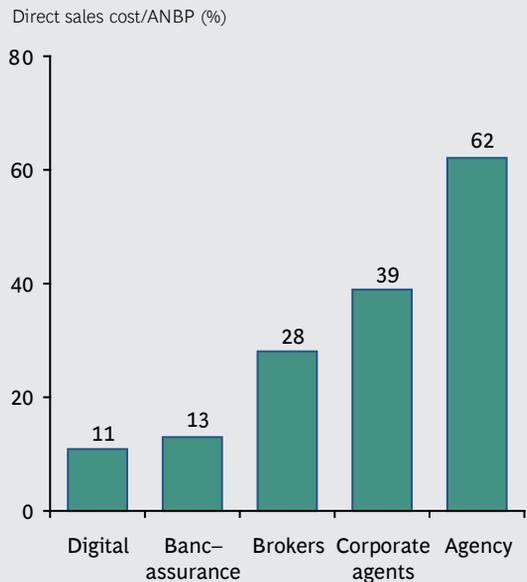
Source: AXCO; SNL; Annual reports; Analyst reports.

EXHIBIT 2.3 | Digital Life Policies More Cost Efficient with Higher Persistency

Highest persistency amongst channels



Lowest direct sales cost amongst current channels



Source: BCG FICCI Life Insurance benchmarking survey report 2013.

¹Physical channels include agency, bancassurance, brokers, corporate agents and direct sales force.

growth in volumes in the recent past. In the last three years it has seen a 4x growth in the value of life insurance premiums and a 7x growth in the value of health insurance. Motor insurance sales that were relatively small in 2011-12 have gone up four times within the last year itself. This has been achieved not only by building awareness about high utility insurance products, but because online platforms offer a unique opportunity for efficient low cost distribution.

BIG DATA AND ANALYTICS BREAK ENTRY BARRIERS

The relatively lower cost of leveraging digital technology compared to physical presence, combined with customer acceptance of new products and brands, is breaking down the barriers to entry across industries.

Big data replacing experience as competitive advantage. Insurers have long believed that of the four parts of the value chain in the insurance industry i.e. risk management, sales, investments and operations, their competitive advantage in risk management is a strong barrier to entry. However, with the advent of big data, challengers have been able to enter and leapfrog years of claim experience accumulated by traditional insurers.

Take for example, the case of **Climate Corporation** in the US, founded in 2006 by two ex-Google employees, which solves one of the most complex insurance problems in the US, namely crop insurance. Its main value proposition is risk mitigation through improved farm operations based on real time monitoring and advisory services. It provides a self-service approach for a product previously sold in over-the-counter negotiations. Clients can log into the site and input the range of temperature or rainfall they want protection from for a specified time. By harnessing big-data and cloud computing, the company estimates the risk related to weather events and crop yield at a localised level to provide an online real time quotation. To do this, Climate Corporation analysed 60 years of crop yield and 14 terabytes of soil type data for every two square miles in the US, along with weather measurements from 2.5 million locations on a

daily basis, for granular pricing of its policies. Climate Corporation also predicts future claims and provides cover for weather events irrespective of crop loss—thus optimising automated underwriting and claim management. It was sold in October 2013 for \$930 million to Monsanto, who in its press release at the acquisition mentioned that data science could be a \$20 billion revenue opportunity beyond its core business of seeds and chemicals.

Telematics revolutionising underwriting ‘one drive at a time’. The main aim of telematic automobile insurance is to monitor real time driving behaviour through telematics technology, allowing for better risk assessment and pricing. Insurers are already leveraging driving behaviour data to personalise pay-as-you-drive underwriting. It is already a useful niche product for certain segments such as young drivers, where the benefits clearly outweigh the cost of installation and operation of the technology ‘black box’. With greater commoditisation of motor policies, there is a need for ways of retaining customers and telematics offers rich data to enable segmentation. For example, **Aviva** targets younger drivers who pay higher premiums with an Android app that monitors the driver’s first 200 miles to determine individual premiums based on driving behaviour, by recording data on acceleration, braking and cornering. Safe drivers are offered discounts up to 20 percent.

Car manufacturers clearly have the advantage of rich and cheap data. For them, telematics originated out of providing ‘connected car’ type services (for example, navigator, entertainment services, and monitoring of the mechanical health of the vehicle). Now, they are using telematics to direct cars involved in accidents into their branded garage network, and also to sell tailored insurance and other products (for example, breakdown cover) to their clients. Many car manufacturers are beginning to partner with insurers, both directly and through brokers and panels. A few are teaming up with data aggregators to analyse and sell the information coming from the telematics boxes. Telematics penetration within insurance is still low (<3 percent) to date in Europe and

the US. However, fifty insurance brands across Europe and the US have entered the telematics market in the last several years. This is further set to change as car manufacturers increasingly incorporate telematics devices into their vehicles. Initiatives like the European Government's 'eCall' that aims to equip all vehicles with a device that will automatically dial an emergency number in the event of a serious road accident, and wirelessly send impact sensor information as well as GPS coordinates to local emergency agencies, are set to make telematics devices cheap and ubiquitous.

Better health care at lower costs through connectivity. Humana and other health care insurers have incorporated the concept of remote monitoring into interactive health care devices. These devices monitor their Medicare members who are living with congestive heart failure, allowing for remote detection of issues and remote advisory to the patient. This enables faster reaction to emergencies, easy sharing of information and remote follow-ups instead of clinical visits.

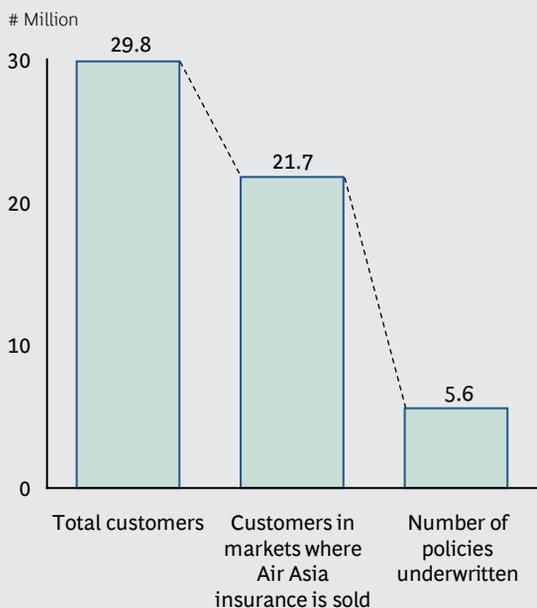
Clinical visits are reduced by 50 percent, resulting in reduced costs. In addition, early detections result in faster treatment, ultimately reducing claim costs.

ACCESS TO CAPTIVE CUSTOMERS AND DEEPER INSIGHTS LEVERAGED BY NEW CHALLENGERS

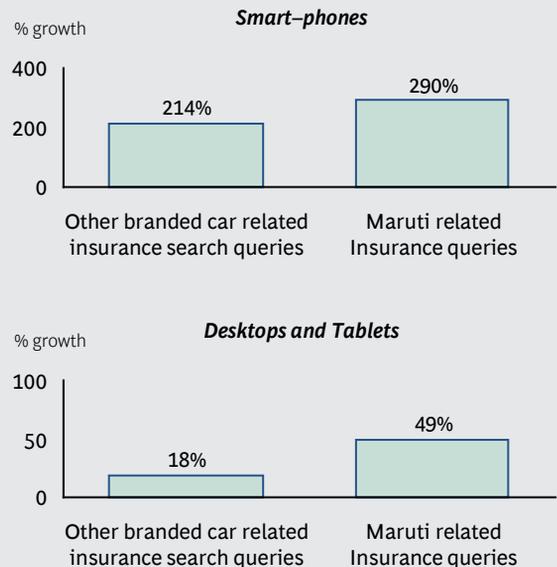
A new breed of entrants into the insurance industry like Air Asia (an airline) are combining low touch digital presence and customer understanding to offer relevant products at the right time. After revamping the low-cost carrier industry, Air Asia is now selling insurance online during ticket sales. It is using access to the airline's already existing huge customer base and brand to sell these low-premium policies on a per-trip basis. More than a quarter of Air Asia flyers purchase its insurance. The premium for its travel insurance has been increasing at about 36 percent per annum since 2009. Air Asia had approximately 6 million customers (as shown in Exhibit 2.4) insured in 2011 and is already the largest travel insurer in South East Asia (SEA). Clearly a competitor

EXHIBIT 2.4 | Access to Captive Customers Open Up Opportunities

More than a quarter of Air Asia flyers purchase its insurance (2011)



Search query growth for Maruti related insurance greater than other branded cars



Source: Tune insurance analyst reports; Google search data.

insurers had not foreseen. Air Asia plans to enter not only the travel, but also the accidental and personal insurance space in India.

Similarly, **Maruti Suzuki** has recently changed its insurance model from being a corporate agent to a broker. Every month over 90,000 Maruti cars are sold in India, and a large majority of its customers purchase Maruti insurance along with their car. The policy buying and selling process is hassle free, as policy documents are provided along with the car. Claims are directly handled by dealers in a cashless transaction; customers do not need to pay and file claims later as with other insurance companies. Search query growth for Maruti related insurance far outstrips insurance related search queries for other brands (as shown in Exhibit 2.4). Can Maruti be the next challenger? Will it consider moving from being just a distributor to a full fledged insurer like Air Asia?

NEW PLATFORMS MAKING COMPANY INTERACTIONS MORE 'SOCIAL'

Insurers are using both mobile and social media to respond to and engage with customers in unique ways. These platforms not only improve sales but also increase customer engagement and improve operational efficiency. Some interesting examples include:

Direct line presented a new concept to engage existing and potential customers in the development process of a new app through its IdeaLab. A four-week campaign on a new iPhone app encouraged Facebook users to help determine its features and functionality. Several hundred users participated to create a new "On the Road" app, including a route planner, live traffic updates and a "Help for Accidents and Claims" tool.

Friendsurance, a German insurer, is a unique aggregator leveraging social media to offer a peer to peer insurance offering. Groups of friends are allowed to create groups online, pooling funds to share limited risk. While small damages can be covered by the 'friend group' as a deductible, large damages are covered by the insurance companies. This model provides benefits to both customers and insurers, enabling reduced

fraud and better risk selection, lower processing costs, lower cost of sales and lower premium for customers.

GiffGaff, a Mobile Virtual Network Operator (MVNO) owned by Telefonica, has used social media forums to completely eliminate its call centres and customer service centres. GiffGaff has set up user forums where customers are rewarded for answering the queries of other customers. Contributors to the GiffGaff community forum are awarded monthly points in proportion to the effort spent. Even this community based customer assistance, the company manages to maintain an impressive 90 second average waiting time for customer complaints. This not only leads to greater involvement of customers, but allows for substantially reduced support costs.

MOBILE INTERNET DRIVING CUSTOMER ENGAGEMENT

A large number of insurers have created mobile applications to improve customer services and / or increase sales. Below are three examples.

Tokio Marine has seen its insurance sales increase substantially post the introduction of short-term easy-to-purchase insurance via mobile in partnership with telecom operator NTT. Tokio Marine has introduced small insurance policies that can be purchased for periods as little as a day or a few weeks to protect the customer against smaller and infrequent activities. Their mobile app uses GPS to determine the customer's location and proactively prompts them with relevant products (for example, travel insurance prompts at the airport, or accident insurance at a ski resort) for "*One Time Insurance*". Customers can then instantaneously complete the purchase of the policy on their mobile devices.

Insurers like AXA & Zurich are already pushing the boundaries in popularising self-service in automobile insurance by developing apps that substantially reduce policy administration and claims costs.

The **Zurich** app functionalities include:

- Recording and collecting accident information.

EXHIBIT 2.5 | Digital Disruption Across Insurance Value Chain (Examples)



Source: Secondary research; BCG analysis.

- Locating the nearest certified repairers for claims.
- Filing and tracking claims; safe driving tips.

A similar app by **AXA** helps:

- Changing cars or adding named drivers.
- Updating your contact details.
- Reporting an emergency.
- Calling a break down service.
- Filing claims online.
- Calling AXA partners—for example, for windshield replacement.

These apps have not only been whole-heartedly accepted by customers, but also allow for more direct interaction with them.

Summary

Thus, we see that digital disruption will happen across the value chain. It not only leads to significant opportunities for growth but also raises important questions for existing players. Insurers need to be creative in leveraging this disruption and participate in the phenomenal value that is possible to create with digital (as shown in Exhibit 2.5).

“DIGITAL” TO HAVE MASSIVE IMPACT ON INDIAN INSURANCE

THE ONLINE INSURANCE MARKET in India is already in excess of Rs. 700 crore. Life insurance sales contribute around Rs. 300 crore, motor insurance around Rs. 250 crore, while other insurance lines such as health and travel make up around Rs. 150 crore.

Online Insurance in India Set to Grow Significantly Larger

The insurance industry is expected to maintain its high growth trajectory over the next few years. BCG projections predict that the life insurance Annualised New Business Premium (ANBP) is poised to grow by approximately 2-2.5X by 2020 to Rs. 125-150k crore, with renewals expected to grow to Rs. 550-700k crore. The non-life insurance industry will grow by around 3-3.5X from its current size to Rs. 200-230k crore. Online sales are bound to grow even faster than this.

Digital insurance in India is set to become massive, supported by two large developments:

- Broadening of the digital influence in India:
 - Mobility to drive Internet growth
 - Move over natives, the migrants are in full force
 - Move over metros, Bharat has arrived

- Digital ageing is far faster than physical ageing

BROADENING OF THE DIGITAL INFLUENCE IN INDIA

The importance of digital in India can no longer be ignored. The fundamental contributor for this digital explosion is the rapidly increasing Internet penetration in India, which already boasts of being the third largest Internet base in the world—surpassed only by the US and China. Thanks to improving infrastructure, the spread of mobile phones to the most far-flung rural areas and affordable Internet facilities, the number of Internet users in India is expected to grow from 200 million today to nearly 330 million by 2016. Social networks also are a large driver of Internet usage. Emerging economies like India have seen new Internet users quickly becoming familiar with social networking even when only partially acquainted with the Internet.

Mobility to drive Internet growth. The Indian market demonstrates some unique characteristics. The BCG CCCI 2013 research shows that nearly 52 percent of all Internet users in India access it only on their mobile phones, up from 45 percent in the 2012 survey. Overall, nearly 67 percent of Indian Internet users access the net on their mobiles along with other devices. This growth is bound to continue in the future with the increasing proliferation of smart-phones, faster access

to the Internet on these phones and the convenience of on-the-go Internet connectivity. Google experience has shown that the growth in mobile searches across multiple insurance lines has increased dramatically since 2008 for smart-phones (as shown in Exhibit 3.1).

Move over natives, the migrants are in full force. A large part of the rapid expansion of the Internet will be fueled by the increased number of younger users who are digital 'natives' i.e. individuals born in the late '80s and '90s who have had access to computing devices practically all their lives. However, a prominent trend is the arrival in full force of older users who are 'migrants' to digital technologies.

As might be expected the BCG CCCI study in 2013 shows that the under-25 urban demographic forms the major age-related group with 43 percent having access to the Internet. But penetration among the other age groups is also significant with users over the 25 years of age constituting 57 percent, with almost 30 percent of all users being over the age of 35 years. As Internet penetration increases, we anticipate a more uniform distribution of its

access among age-specific demographic groups.

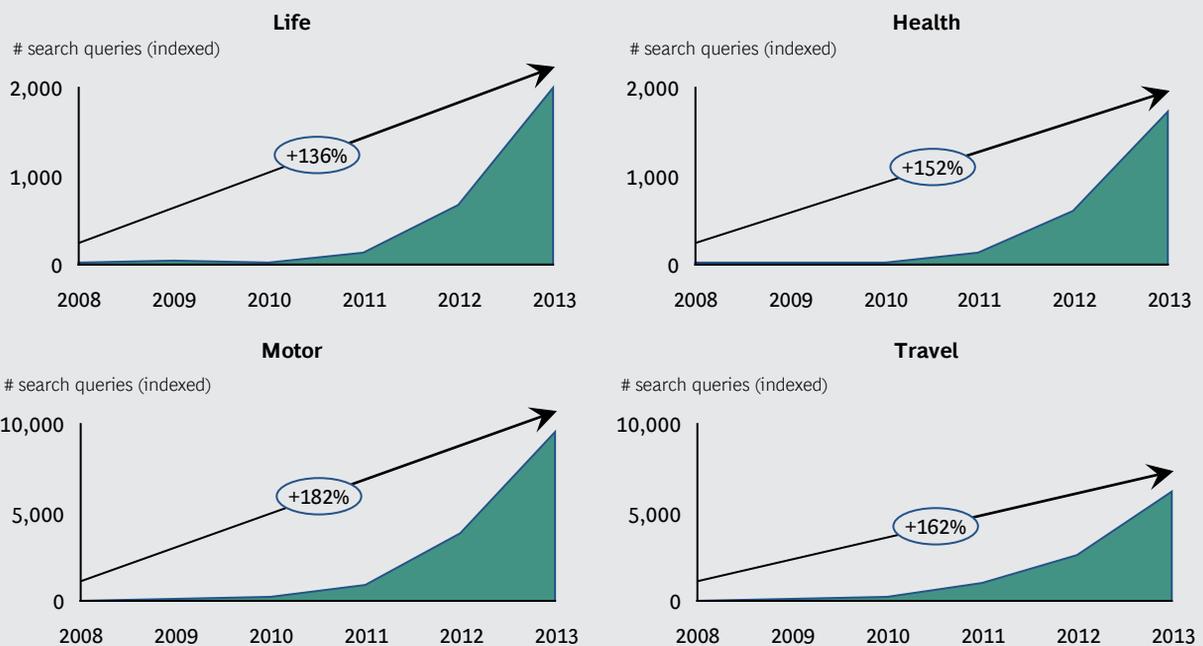
Move over metros, Bharat has arrived. As per IAMAI's latest study in October 2013, greater than 50 percent of Internet users are now present in towns with less than 5 lakh population. Share of rural users has increased dramatically, from only 9 percent of all users in 2009 to 33 percent in 2013.

Similarly, although the metros contribute to a majority of Google search queries, there is a clear trend towards cities in lower tiers catching up (as shown in Exhibit 3.2). Users in lower tier cities actively seek out online avenues as digitisation helps them gain access to better quality products and services that may not be available through offline channels in their cities.

DIGITAL AGEING FASTER THAN PHYSICAL AGEING

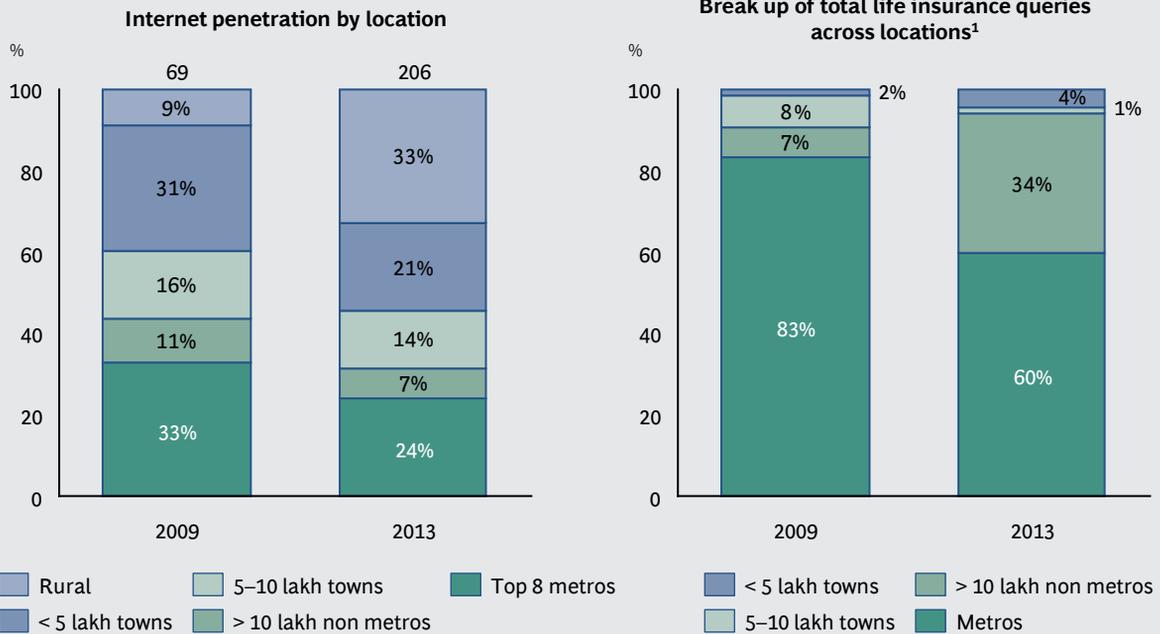
The second key driver that impacts insurance is the concept of digital ageing. Digital developments appear to follow the Mercury year (88 days) vis-à-vis an Earth year. Every quarter is more like a year. The online activity level of a person is considerably impacted by

EXHIBIT 3.1 | Smart-phones Driving Growth in Search Queries



Source: Google search data.

EXHIBIT 3.2 | The Rise of Digital in Bharat



¹Non rural locations, top 500 cities only.
 Source: IAMAI Internet in India, 2013/12; Google search data.

the amount of time spent in actively using digital media. BCG CCCI’s digital influence study 2013 showed that customers with two years online tend to be three to four times as active as customers in their first year on the Internet (as shown in Exhibit 3.3) Two years online are the equivalent of nearly eight to ten years in the physical world.

‘Digital’ has Deep Impact on more than Just Sales

Digital can help address almost all the important issues that plague the offline world today. Trust would be higher as the customer interacts with the manufacturer directly. Mis-selling would be reduced as information being disseminated would be exactly what the manufacturer desires, and in accordance with regulatory guidelines. There would be complete transparency in the product construct for customers, along with superior pricing as manufacturers pass back savings in acquisition and servicing costs. Furthermore, the critical differentiator would be the change in customer mind set. The same customer who gets ‘pushed’ or nudged into buying an insur-

ance product offline is a seeker of information on the brand, product and pricing when online. Brands therefore have to look upon an online customer from the perspective of “pulling” or drawing them to their brand with offerings that best suit their needs.

Digital has a massive impact across four key areas (as shown in Exhibit 3.4):

Sales: Digital has substantial impact on direct sales both as a distinct channel and also by assisting in increased conversion of leads. It allows for capture of new segments through digital-only simplified products and greater cross-sell from enriched digital services to existing customers.

Influence beyond sales: In addition to sales, digital also wields a large influence in terms of customer advocacy, information search, price discovery, renewals and offline sales.

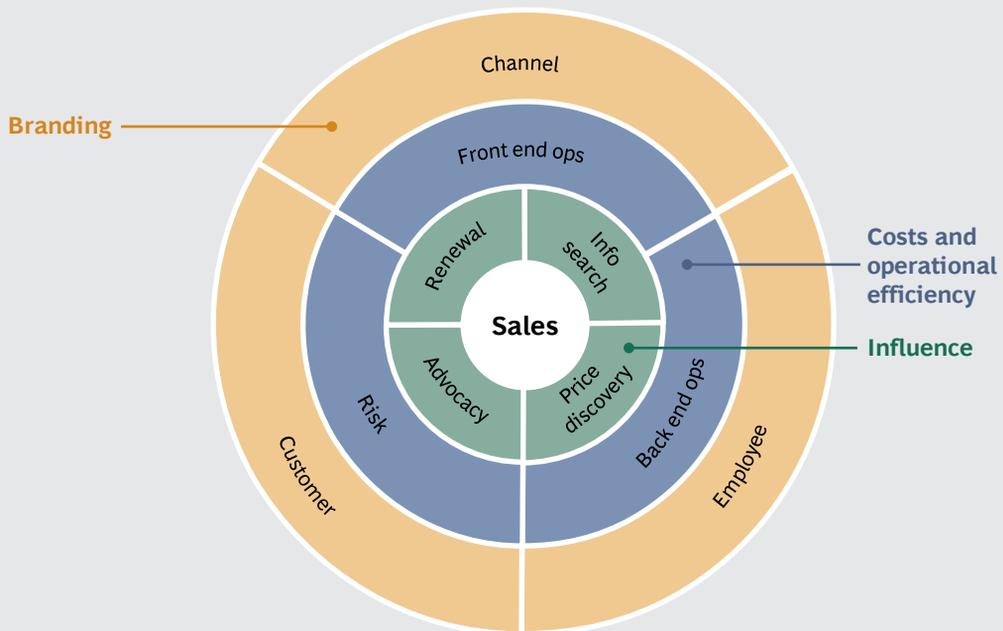
Cost and operational efficiency levers: Digital offers insurers an opportunity to substantially improve both front and back office processes. Front end costs can be substantially re-

EXHIBIT 3.3 | Digital Ageing: Mature Users Engage in More Commercially Relevant Activities

Internet users (conducting these activities)	How long have they been using the internet?		
	<1 year	2 years+	
Search for information	71%	85%	1.2x
Educational information search	17%	24%	1.4x
Discount search	7%	14%	2.0x
Shopping	6%	17%	2.8x
Online booking	5%	18%	3.6x
Online banking	4%	12%	3.0x

Source: BCG CCCI digital influence study 2013.

EXHIBIT 3.4 | Digital Impact Greater than Just Sales



Source: BCG analysis.

duced through elimination of sales force costs and enhanced efficiency of advisory processes with digital tools. Improved automation, Straight Through Processing (STP) and self service options can create an impact on back office costs as well. In addition, Big data and other tools like telematics enable better risk selection, outlier claim detection and overall reduction in claim costs.

Branding: In today’s world where a new generation of customers, employees and distributors are all digital ‘natives’, digital is no longer an ‘alternate’ channel; it is the main channel for many, providing an opportunity for deeper stakeholder engagement.

ONLINE SALES POISED FOR GREATER THAN 20X GROWTH BY 2020

The online insurance sales market in India is already in excess of Rs. 700 crore today, and growing fast. Life insurance sales contribute approximately Rs. 300 crore, motor insurance approximately Rs. 250 crore, while other insurance lines such as health and travel make up approximately Rs. 150 crore. Online life insurance sales are expected to grow to 3-5 percent of the individual annualised new business premium by 2020; and

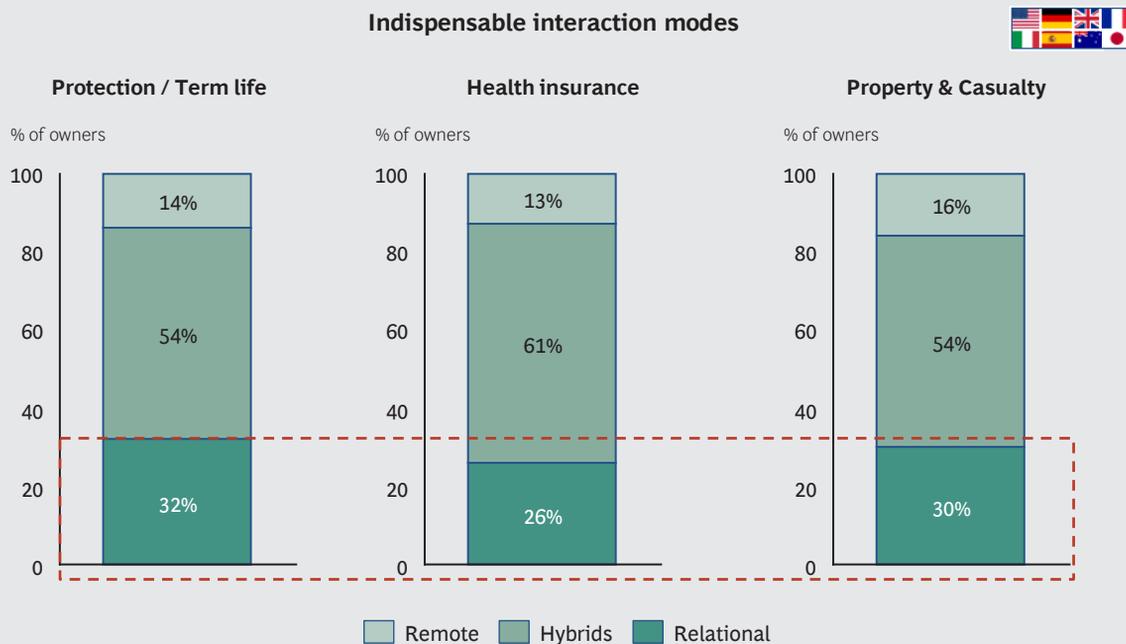
non-life insurance sales are expected to grow to 15-20 percent of non-life retail business. This means the online insurance sales market in India will be around Rs. 3,500-6,000 crore for life insurance and around Rs. 11,000-15,000 crore for non-life insurance: A total of Rs. 15,000-20,000 crore, up by over 20 times.

RS. 300-400K CRORE WORTH OF SALES WILL BE DIGITALLY INFLUENCED

In a Customer Sentiment Survey by BCG in eight countries (US, Japan, Germany, France, UK, Italy, Spain, and Australia), we already see that 70 percent of insurance owners either prefer remote, mostly digital, interactions or a hybrid of both. Barely about 30 percent of insurance owners are relational and value only agent or physical interactions (as shown in Exhibit 3.5).

In India, the digital influence in insurance sales is already 12 percent for life insurance, 14 percent for health insurance, 10 percent for motor insurance and 19 percent for travel insurance as per the BCG CCCI digital influence survey 2013. This amounts to Rs. 7,000-8,000 crore of new insurance sales influenced by digital today. BCG estimates the

EXHIBIT 3.5 | Only 30 percent of Insurance Buyers are Completely Non Digital Today



Source: Consumer Sentiment Practice Area survey April and May 2012; BCG analysis.

digital influence in insurance sales to grow to 50 percent for life insurance and 75 percent for non-life insurance by 2020. This implies that Rs. 1,10,000 to 1,20,000 crore of new insurance premiums will be digitally influenced by 2020.

Life insurers are trying to move more and more renewals to online channels. Currently online renewals are expected to be around 10-15 percent of overall individual business renewals, which means around Rs. 15,000-25,000 crore worth of renewal premium is already coming through the online channel for the industry. By 2020, online renewals are expected to be 35-50 percent of individual renewal premiums, which will take online renewal premium to Rs. 1,75,000 to 3,00,000 crore (as shown in Exhibit 3.6)

Digital will be a critical builder of advocacy in the future. The extent of digital influence on both online and offline sales will be greatly influenced by the brand that companies create in the digital space and word-of-mouth referrals by customers. Companies that succeed will simultaneously target and recruit effective advocates; use powerful messages with disruptive schemes; and engage in a continuous relationship.

DIGITAL LEVERS CAN SAVE 20-25 PERCENT OF COSTS—POTENTIALLY THE PATH TO PROFITABILITY

While the primary direction of change driven by the new digital technologies will be customer-facing, the digital wave also provides large opportunities for optimising insurance companies operating models.

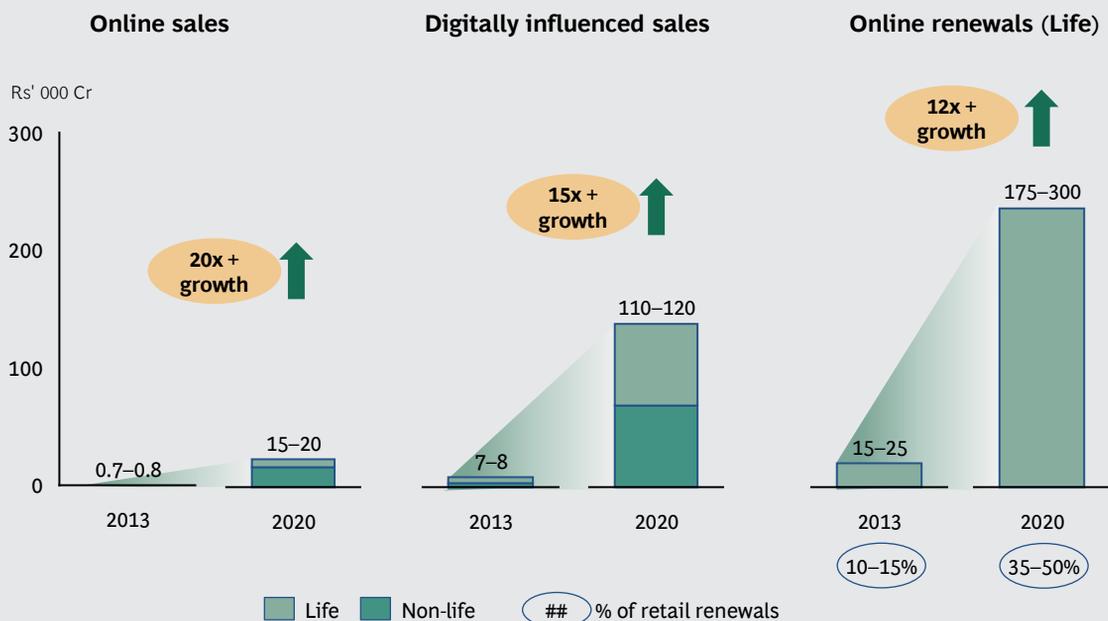
Both life and non-life insurers can bring down their cost ratios if they are able to embrace digital whole heartedly, move 5-10 percent of their sales online, digitise operations and make better use of digital for customer advocacy and branding. Detailed analysis of cost structures reveals that there are multiple areas where digital initiatives can result in cost benefits of 15-20 percent of the total cost for life insurers and of 20-30 percent for non-life insurers (as shown in Exhibit 3.7).

There are four main cost reduction levers:

Reduced direct sales costs: Not only will digital sales help in improving sales and productivity, it will also help in bringing down sales costs and commission ratios.

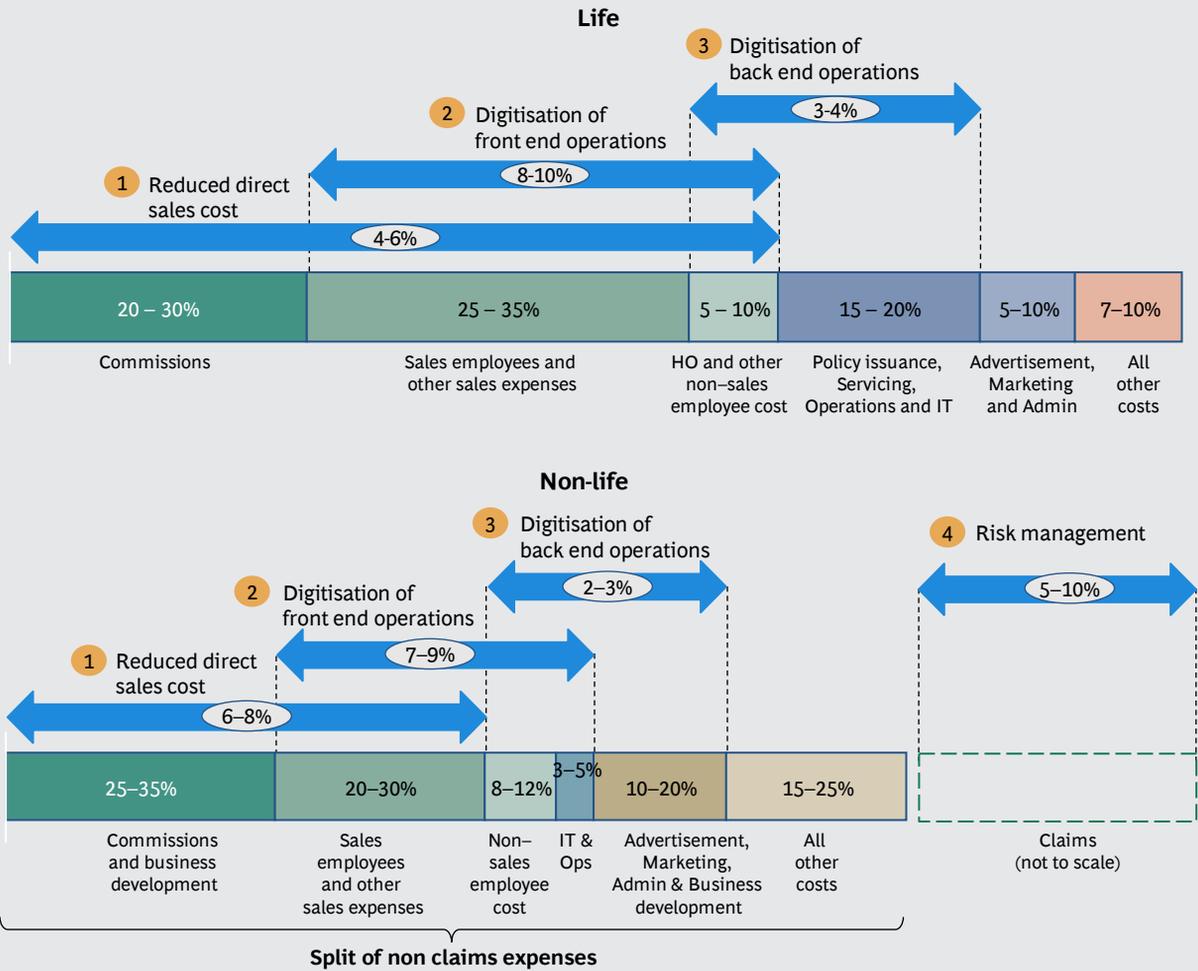
Digitisation of front end operations: Enabling the sales force with tablets and other digital

EXHIBIT 3.6 | Digital Impact on All Sales and Renewals to be Massive by 2020



Source: Investor presentations; annual reports; BCG CCCI India digital influence study 2013; BCG analysis.

EXHIBIT 3.7 | Potential Cost Savings of 15–20 percent for Life Insurers and 20–30 percent for Non-life Insurers



Source: BCG analysis.

tools can help a great deal in improving their productivity. Reduced turnaround time and effort due to digital tools will also improve the productivity of non-sales employees, leading to additional cost savings.

Digitisation of back end operations: Automation of back end operations will lead to a higher percentage of Straight Through Processing (STP), digitisation of post-issuance customer service, and self servicing that will improve productivity of the employees involved in daily business operations, besides reducing effort and cost.

Risk management: Digital initiatives like Big data and telematics can improve underwriting, fraud control and bring about effective claim management, especially for non-life insurers.

Reduced direct sales costs. Almost 80 percent of commissions paid by life insurers is towards new business generated. This is almost 100 percent for non-life insurers. Moving 5-10 percent of new business online will lead to direct savings on commissions. The cost of distribution through digital channels is almost one-sixth that of agency and much lower than any other channel. Cost savings will be much larger for insurers who are able to build scale and move 25-30 percent of their sales online. Online renewals will also help life insurers in improving persistency. Many policies that would otherwise have lapsed can be retained with digital help, through timely intervention and advice.

Digitisation of front end operations. Digital has the potential to transform insurance sales

and marketing, enabling a multi-channel sales journey customised for each segment. Significant revenue upsides can be garnered by improving the effectiveness of existing channels by leveraging digital to focus on agent enablement and customer targeting.

Agent enablement. Agent enablement drives value through increased conversion and up-selling, in addition to freeing up agent time towards sales rather than administrative tasks. To unlock value, insurers must be willing to embrace new digital tools representing a major change compared to their existing sales process.

Many insurers have already enabled their agency force to use tablets with great success. **AIA** uses the iPad as part of an 'Interactive Point of Sales' (iPOS) to increase the productivity of its agents. Beginning with Taiwan in 2011, it has now been rolled out to over 16 countries, with 50,000 field agents who can sell completely paperless insurance policies on a tablet, anytime and anywhere. **Allianz** has piloted a digital agency with 800 agents in Italy. All aspects of the purchase process have been digitised. The pre-sales process has web / SMS lead generation and online quotations available. The sales process itself is enabled with e-signature and digital payments for a dedicated digital product line. The policy is mailed within 30 minutes as a PDF attachment.

Digital tools not only support a paperless, one-stop sales process, they also create a substantial impact in operational efficiency. Value can be derived from four important aspects:

- *Better data capture and cross sell:* Instant inputting and verification of customer data on applications by sales staff, field investigations, and CAMs preparation, resulting in faster, cheaper and more accurate data capture. This will further allow for increased cross sell opportunities.
- *More efficient sales processes:* Lead management systems integrated with email and overall MIS can lead to enhanced sales force productivity. Leveraging the tablet for follow up with the sales funnel and as

a pipeline tracker clearly enhances the sales process. This allows not only for more meaningful tracking of the sales force, but also eases the actual sales process. Digital data capture results in a lower number of visits to the customer to close the sale (potentially from an average of three meetings to two) and reduces customer dissatisfaction arising out of the current processes of checking for missed data.

- *Enhanced customer engagement:* Digital tools such as online maps, calculators for various customer requirements and videos can not only provide sales assistance and standardise the sales process, but also build customer connect. Imagine an agent who can show case product features through multimedia tools, calculate premiums, allow the customer to connect through video to an expert, complete the application, and showcase a video of the CEO welcoming the new customer, all in the same customer visit.
- *Increased enablement of Feet on Street (FoS):* Tablets can also be used to provide online training, disseminate new product information, process changes and solve FAQs. This not only minimises non-productive sales time, but also reduces the time that agents spend in their office. It also allows for online quizzes to ensure that newer features and changes have been understood by the sales force.

Customer targeting leveraging digital. In addition, digital can also be leveraged for better customer targeting through:

- *Customer profiling:* Shifting customers towards the best suited channels and products can lead to increased profitability by transitioning low value interactions (for example, research, product comparison etc.) to online channels for less profitable customers, currently served through agents.
- *Timely intervention:* Digital tools provide a critical advantage through analytics to prevent revenue leakage through surrenders and lapse. These tools can be used to

identify the probability of lapsation or surrender by picking up early warning signs. Processes for quick reaction times can then be put in place for customers who surrender policies or let them lapse.

- *Enhanced conversion of existing customers:* Converting service customers to sales can become a reality through improved analytics. Analytics can also be used to reduce funnel dropout due to poor multi-channel experience.

Digitisation of back end operations. Digitisation has accelerated development of technologies that enable current paper processes to be shifted towards paperless; and automated processes with Straight Through Processing (STP). Improved efficiency can lead not only to substantially reduced costs but also enable self-service portals that can improve customer satisfaction and retention. The key to improving back end operational efficiencies is to ensure that physical processes are not simply replicated in the digital context. The aim should be to place digital processes in the centre and ensure that processes are simplified across channels and support multi-channel interactions. There are three levers for back end improvement: automation; STP and paperless processing; and self service acceleration.

Automation. Automation savings are available through simplification, and subsequent automation of both underwriting and claim processing. Automation savings arise from reduced labour and processing time through the shift to non human underwriting. Reduced human involvement improves processing times and reduces the chance of underwriting errors. In addition, process automation is a major lever for agent enablement and consistency of experience across channels. Automated processes allow real time quotations through links to digital tools used by agents and other physical channels.

Straight Through Processing (STP) and paperless processes. Digitisation and automation of insurance processes can yield considerable process cost and customer service benefits. BCG benchmarking in South East Asia revealed significant potential for reduction of turn-

around time in policy application, as also cost savings of almost 67 percent. The same study also showed a clear correlation between the level of straight through processing and the number of Full Time Employees (FTE) required. The greater the STP, the lower the FTE requirement per unit volume, leading to a large cost benefit.

Players like **Allianz Germany** have been able to achieve close to 100 percent back office digitisation. Processes have been streamlined so that there is a paperless interface available for all channels (including agents), not just online sales. In 2012, 94 percent of motor policies and 97 percent of other non-motor retail policies entered into the system digitally as compared to only 45 percent for the industry, with 80 percent STP compared to only 25 percent for the market.

Goudseinsurance in the Netherlands has also reached 70 percent STP in new policies, supported by streamlined underwriting technologies. It used real time underwriting combined with workflow software to connect the front and back office, allowing for faster end-to-end closure with customers. This resulted not only in improved efficiency and speed, but also greater customer satisfaction. Customers were happy to complete the underwriting information easily with limited iterations, and also receive speedy clarity on the acceptance of risk.

Self-Service acceleration. Post-issuance customer service is currently relatively manual and entails a relatively high cost. Digital customer self-service offers an opportunity to reduce this cost significantly and simultaneously improve the customer experience. This requires robust and user friendly interfaces and a programme to take customers onboard the digital self service channel. This can also be an important tool to increase customers' use of the portal and look for opportunities for cross sell.

AXA PPP, one of the largest private medical insurers in the UK, established a self service portal to improve ease of access to health services; it used its service provider database to recommend doctors and hospitals that provide efficient service to its insurance customers. The matching of service provider choice to patient

needs adds value to the patient and reduces claim costs. Further, it monetised the portal by offering complementary products like healthy food, beauty treatments and vacations.

Risk management. Risk management is potentially the most disruptive cost lever. New digital solutions generate large amount of new data that is highly valuable for insurers; digital capabilities can bring significant value for insurers on multiple dimensions:

Underwriting: Enhanced risk assessment and innovative pricing schemes: Integration of external digital data allows enhanced risk assessment for new customers; smart devices enable innovative pricing schemes (for example, pay-per-drive).

Claim management: Improved early outlier claim identification and claim assessment are enabled thanks to Big data and technology, resulting in reduced claim costs. For example, **Liberty Mutual** uses Big data to optimise handling of outliers in claim management. These claims can cause high bottom line impact (the top 50 percent of claims generate 90 percent of claim payments) and are difficult to identify. The company now uses a predictive model, developed after analysing 140 million data points and has seen sizeable reduction in the average claim size for outliers.

Loss prevention: New affordable technologies help connect networks and monitor critical data, influencing customers to lower risks. The trend allows insurers to graduate from simple risk assessment to dynamic knowledge of risk and mitigation whenever possible.

DIGITAL BRANDING: THE POWER TO MOVE INSURANCE FROM A PUSH TO A PULL MODEL

Beyond the huge impact on sales and operational efficiencies, digital provides an opportunity for deeper brand and customer engagement. In today's world, digital is no longer an 'alternate', but the main channel for all the key stakeholders—customers, distributors and employees.

The Internet is playing a dominant role in influencing brands not only for purchase decisions but also for employment and partnering

decisions. Around 80 percent of respondents in the BCG CCCI India digital influence study reported narrowing in on their policy brand after online research. This influence only increases with the increasing digital age of the consumer. Recent studies from Google India have also demonstrated that 2 out of 3 digital consumers of financial products changed their mind about the product or brand after conducting online research. Insurers need to be very conscious of their online brand equity as it not only influences the decisions of a customer searching online, but also snowballs through social media and other channels to impact the decisions of other customers.

The influence of social media is more important for the insurance sector than for other product categories. The BCG Digital Media Study 2012 of insurance buyers reveals that search and social media account for nearly a third of the traffic to both company specific websites as well as third party insurance websites. Social media influence in specific categories like life insurance is seen to be higher than the average across all product categories. Traditional channels like television contribute to less than 4 percent of traffic to company websites and third party websites.

In addition to customers, the various digital channels also provide the opportunity to connect and engage with distributors through multiple elements such as a distributor portal, agent ratings online, etc; as well as employees through the intranet and social media.

Summary

In summary, the impact of digital is going to be massive. While online sales are likely to grow by more than 20-30x to Rs. 15-20k crore by 2020, digitally influenced business is estimated to be Rs. 300-400k crore. In addition, the impact of digital goes way beyond sales. Leveraging digital for a combination of efficiency enhancement in front end enablement, back end operations and risk management will reduce costs by 15-20 percent for life insurers and 20-30 percent for non life insurers. Lastly, digital media can be leveraged to build connect and engagement with all key stakeholders—customers, distributors and employees.

“DIGITAL” CALL TO ACTION: TIME TO ACT IS NOW

CHANGE IS HAPPENING—‘DIGITAL’ ALREADY partly is, and even more so in the future, will be the new way of life. The digital influence on insurance is largely enabled by the exploding popularity of mobile devices and social media. Its reach continues to expand at a rapid rate with a fundamental change in the way people, technology and businesses interact.

The impact of digital in insurance in India cannot be wished away. Not doing anything is not an option. Insurance companies need to acknowledge the impact that digital can have on their business model and act on multiple fronts.

Set Digital Goal Posts

Insurers will need to align their digital strategy to their standing business objectives. This will entail understanding how customers are leveraging technology; and then selecting a digital aspiration that guides their strategy. Along with this, it is important to assess their own capabilities to meet the opportunities and threats.

Companies need to identify what kind of business model they wish to pursue. Would they like to actively cannibalise the current business? Would they establish a new digital unit as a parallel business? How would, or could the complete business be reoriented around digital? Traditional reasons offered for not moving

in on this opportunity could be both external (intermediary or agent resistance) and internal (legacy technology or slow pace of transformation). Such excuses are signs of inertia that need to be overcome. Companies that have successfully repositioned themselves have experimented with different approaches and found ways to share the benefits of their digital investment with their distributors.

This aspiration can be set on multiple dimensions. It could be x% of new sales through digital by 20XX, and / or y% of renewals by 20YY, and / or z% of customers interacting online, and / or w% STP and cost reduction, etc. The list can be long but insurers need to be able to define what they are going after. At a more tactical level, practical goals need to be set. It is clearly critical to define the focus segments, for example are you targeting 100 percent of the people interested in insurance online or 10 percent of the people interested in finance online? On similar lines, insurers will need to determine the level of visibility they want to create in line with their overall brand, for example, whether they want to do viral campaigns. They will also need to determine the extent to which they integrate their web or mobile experience with the offline channels.

Rewire for a Digital Mindset

True realisation of the benefits of digitisation requires a fundamental shift in mindset. Insur-

ers need to be prepared for a more disruptive and agile world in comparison to the episodic transactional world they have witnessed so far. They need to create a work environment in which employees are empowered and motivated to improve and contribute to the entire organisation. This includes a test, learn and share culture. Employees need to be empowered with the freedom to generate bottom-up ideas; time and resources must be allocated to try and test these ideas at an early stage, coupled with mechanisms for scale-up and selection of initiatives. It is critical to identify the best people and charge them with the duty of getting the company digital-ready. You need to ensure a good mix of the best leaders and fresh blood, including digital natives, to create a powerful team with diverse perspectives.

Companies also need to recognise that *for the first time in history 'older is not better than younger'*. In fact, with a generation of digital natives entrenching themselves in the workforce, greater experience on the digital dimension now lies with younger employees. This has a profound impact on organisational dynamics. Companies need to create the right mechanisms to allow younger team members with newer ideas to impact and affect change, combining their digital readiness with the right interpersonal communication and leadership skills.

A good example is *Procter & Gamble's reverse mentoring programme called "Mentor Up"* which paired senior decision makers with younger digitally savvy reverse mentors. The role of the mentors was to meet the leaders every week or fortnight and share with them all that they had done using digital channels. This increased the awareness of digital with the senior leaders and made them alive to the possibilities.

Infuse the Right Digital Reflexes within the Organisation

Sustainable digital strategy requires adaptation of organisational structure and capabilities. Instilling the right reflexes requires:

- **Building up the right expertise:** Identifying and developing new skills, deciding on the right internal and external talent balance and robust training programmes.

- **Creating a centre of excellence:** Bundling of core digital functions into a coordinated digital centre of excellence, while decentralising execution and content creation.
- **Creating a cross functional team:** Matching the right skill sets and decision makers to work on the task at hand.
- **Defining the governance model:** Determining decision rights and creating a process that enables cross team participation while integrating digital functions into the day-to-day business.

Some obvious elements that require attention in an organisation for it to be 'digital ready' include:

Integrated channels and single customer view: Customers should be able to choose any channel or combination of channels such as call centre, mobile phone / apps, social media, that best suit their needs. They may choose to move between channels through their journey and should always be able to rely on seamless integration between the channels. This has implications on how insurers should be organised.

Single customer data repository: Within each model, a central customer data repository needs to provide the inputs for customer analytics and inform decisions across the whole business. The role of the repository is to capture and store rich customer data, potentially from both internal and external sources.

Analytics team: An analytics team, which mines customer data for insights that inform marketing, proposition development, pricing, as well as claims, needs to be the core element of each model. Under some models, separate customer insight teams, relying on the customer analytics' technical expertise, may play a critical role in proposition development or pricing.

Selecting the most appropriate organisational model requires evaluating each option against a set of three key criteria:

- *Capability creation:* The extent to which the model enables the insurer to build the

capabilities required for winning in the digital world.

- *Performance implications:* Whether the model enables achievement of the insurer's growth aspirations in terms of customer acquisition / retention and revenues at the right costs.
- *Implementation feasibility:* The cost and difficulty of transitioning to the proposed model, based on existing capabilities.

Accelerate the Transformation

An active digital strategy should include areas that are critical for the insurer to win in the current changing environment.

INTEGRATE ONLINE AND OFFLINE STRATEGIES

A customer is neither physical nor digital.

Most customers today, and even more so going forward, will use multiple channel pathways across their product life cycle. They expect a seamless experience across both online and offline. Hence insurers need to create processes that:

- Improve customer-centricity by letting customers choose the channels they prefer.
- Provide a single customer view.
- Provide consistent and "real-time" information of all interactions across channels.
- Ensure that channels refer to each other and provide real-time assistance (for example, chat, call back ...).
- Ensure seamless cross-channel acquisition processes reducing leakages during the purchase process when customers switch channels.
- Consolidate vision of customer behaviour and profitability across all channels.

PROVIDE SIMPLE PRODUCTS AND INTUITIVE PROCESSES

As per the Google eCommerce study, consumers spend a longer consideration time for high value purchases (for example, insur-

ance buying decisions take 26 days). Thus insurers need to ensure products and processes are designed to be simple and interactive. BCG's Global Digital Satisfaction Survey in 2013 showed that customers today rate insurance as one of the worst digital experiences amongst all industries. Customers demand increased product understanding / transparency and customised options.

Insurers' websites fail to meet customer needs. No clear linkages are created to the customer's needs and find it difficult to understand which products they require. Many websites have daunting registration processes with no perceived benefit, and terms that do not seem transparent.

Overall, there is a lack of trust with the perception that clear information is not provided. A primary issue that keeps customers away from going digital for their insurance needs is the disconnect between their starting point and what the online process offers. A clear path forward is not available for interested customers and there is no lock-in of customers to the brand. While most insurance players have compelling products to sell, they are not able to translate that into website sales. They need to understand the purchase process of a digital user and align their website processes / content / products accordingly. Many users who wish to buy an insurance policy do not have a clear idea of their requirements. Yet, they need to buy one. They expect help from a user-friendly insurer website to:

- *Discover their requirements:* Most users are not fully clear on what they are looking for. Therein lies the opportunity for the insurer to assist them and build credibility for the brand. Customers will not buy until they are convinced about the product value proposition and the website intent. Insurer websites should not appear to hard sell to their users.
- *Understand the products offered:* Users' understanding of insurance evolves as they discover more information about the products. Hence the insurer should start by providing basic information about the products and subsequently present the finer points. A phased approach is a good

way to introduce content (as shown in Exhibit 4.1 as an example).

- *Choose the product that is right for them:* Insurer websites should allow the user to compare products on their website. Unless they are able to narrow down to the product they want to buy, customers will not proceed to the next step of purchase. The website processes should be simple enough for users to identify the best product for her / his needs.
- *Complete the purchase process:* Ensure that the purchase funnel eliminates ambiguity, minimises clicks, surfaces relevant information at each step and allows the user to navigate back and forth on the conversion steps.

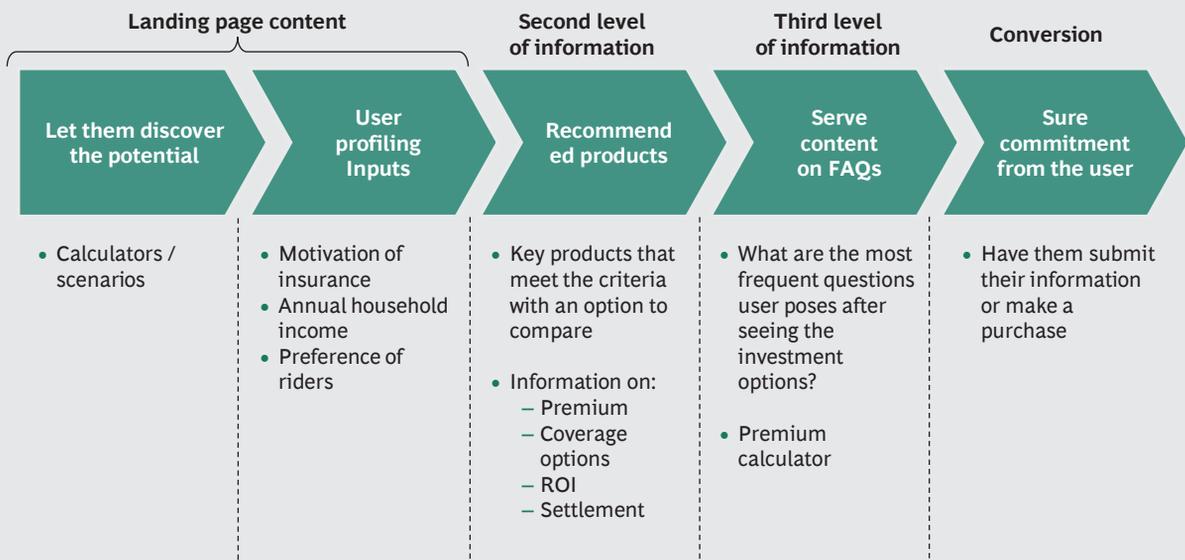
REVAMP THE MOBILE EXPERIENCE

With one in four queries on Google.co.in coming from a mobile device, and over 50 percent of internet users in India accessing the net only on the mobile, it is important for insurers to customise their mobile presence. Insurers need to keep in mind the fact that the mobile experience is quite different from the desktop experience. Smaller screen size and internet speed are the critical differences. This requires keeping a few design principles in mind.

- *Make it simple:* Functionality should allow for intuitive and quick navigation, high user comfort and fewer clicks.
- *Keep it light:* The loading speed is all the more important on mobile devices, and thin interfaces should be utilised.
- *Think about ergonomics:* Make large buttons and wider clickable areas for small buttons or checkboxes.
- *Minimise typing inputs:* Typing on a mobile is twenty times slower than that on a computer. Reduce input fields to the minimum level.
- *Multiply contact points:* Not everybody is ready to migrate to a mobile device; make it possible for the user to stay in the funnel (web advisor call back, phone number, click-to-call, e-mail, documentation request, possibility to continue on desktop or tablet, summary by email ...).
- *Think vertical:* Keep only the essential content and highlight the 'call to action' prominently for the customer.

Some companies in the Indian space have already seen success with focused mobile initiatives. For example, take **RedBus**. It developed

EXHIBIT 4.1 | A Phased Approach to Information



Source: Google experience.

its business as a mobile first model with extremely user-friendly smart-phone assets and seamless integration of back-end processes. It also recognised that a sizeable portion of its target segment of bus travelers did not own smart-phones. As a result, they came up with a business model around phone calls and cash on delivery that was sustainable even for low-margin transactions such as bus bookings.

Myntra also realised the potential for online shopping through the mobile, and customised its online and mobile presence. Steps were undertaken to ensure customised mobile ad-campaigns; mobile-specific keywords to augment existing campaigns; modified ad-text on search engines to increase mobile relevance; and ensuring Myntra advertisements appeared at the top of search results for categories sold by them.

CREATE A DEVICE / PLATFORM—INDEPENDENT EXPERIENCE

All web-content must be specifically optimised for use by different operating systems and devices. Customers operate multiple devices in many cases across platforms and expect the same ease of access and usage. Android is currently the leading smart-phone operating system in India. This is expected to continue as per projections for 2017, however, the IOS and Windows platforms are also expected to become considerably more important.

Google's Think Insights shows that 90 percent of respondents use multiple screens sequentially to accomplish a task over time, with 98 percent of them moving between devices on the same day. Hence user interfaces have to be thought through meticulously across all devices and platforms.

DIGITAL LISTENING—ENGAGE CONSUMERS EFFECTIVELY

From priming users pre-purchase to engaging with them after the purchase, social media can be used to get involved with the user at every step of the purchase funnel. Whether it is Google Plus, Facebook, Twitter, Whatsapp, Vine or YouTube, social media can be used to reach the right user with the right mindset at the right time. It can be used innovatively to guarantee reliability of online commitments to customers; provide regular updates; disseminate information; and start a virtual dialogue with

potential and existing customers that can provide interesting and free insights into what consumers think about the brand.

Many companies are engaging in listening and undertaking two way communications with customers. A good example of this is **Fidelity Labs** which engages the customer community to create innovative financial products. It pilots new financial products not ready for wide distribution segregated from the core products. . Developers ask the online customer community about pain points, desires, and experiences from use of different apps and concepts. Forums and blog posts are mechanism used to receive feedback. The products are evaluated by monitoring customer adoption, and the findings influence strategic planning. Apps that receive positive feedback are released to all Fidelity customers. **ING Diba** also created a social media initiative where they published discussion topics, opinions, videos, charts and ideas from well-connected opinion-makers for their customers. The level of discussion and interest generated online through this has led them to plan even more interactive online social opportunities for customers through video conferences, hangouts etc.

RETHINK YOUR AD SPENDING

With the Internet almost neck-to-neck with television in marketing recall, companies need to re-evaluate digital spends and focus on newer media. Measures like search engine optimisation will go a long way in promoting a brand's digital presence. Google surveys show that brand value is perceived by the order in which the brand appears in search results. Ad spends should follow the target consumers' media consumption pattern. In the TGI media study, print accounts for 11 percent of media consumption time and a disproportionate 39 percent of ad spends. Television is not evenly spread across the target audience and generates wasted repetition; online video and other channels can be utilised to reach users better. Studies show that when advertisers introduce direct net channels for example YouTube in the mix, they can get the same reach as TV, with a lower budget.

In an effort to create awareness amongst young adults, **State Farm** partnered with YouTube, Coachella Valley Music and Arts Festival and

other music sites to bring music lovers an exclusive, front row experience that went beyond on-site activation, through online live stream. State Farm brought Coachella 11.8 million views in 3 days at an average duration of 49 minutes per user, nearly thrice the results by other brands. **GEICO** is another example of an Insurance company that uses YouTube very well. It has over 80,000 subscribers and videos with over one million views. Such a large fan following is only possible because of the company's YouTube-specific content and strategy. The content is designed to be consumed quickly, to catch the eye of the young population visiting YouTube.

Partner—Smart

As insurers look to fully participating in the explosive digital wave, the point to keep in mind is that insurers do not need to build all the digital capabilities in-house. The digital explosion is creating its own ecosystem of business service providers, and the smart move would be to partner or leverage these digitally advanced providers. The potential to partner is available across multiple categories, including:

Tablet manufacturers: to customise tablets to meet one's specific requirements, for example, Lenovo.

Mobile web / web application and content developers: to create state of the art apps.

Analytics companies: that analyse customer patterns and behaviour and enable targeted marketing / offers.

Search engines: to identify target customers early and reach out to them.

Online retail portals: to generate leads of potentially interested customers for example approaching customers who search for TV purchase online with householder's insurance.

Digital media companies: to help with media spend optimisation.

The list of potential companies to partner with can be even longer. As an insurer builds up its digital presence and business, it can look at building and bringing some of the core capabilities in-house.

Make a Beginning

Traditional insurers who want to reorient their business through digital can adopt a number of models. They can either develop a stand-alone digital platform and actively migrate existing customers; or place digital at the core of their strategy, designing processes and products, and adapting other channels accordingly; or they can create a stand-alone unit to target tech-savvy customers. Whatever be the model selected, it is recommended to adopt a phased approach to digital transformation. (refer Exhibit 4.2 for an illustrative roadmap). The core elements of the digital transformation: setting the digital goal post; enhancing digital awareness through the organisation; and infusing the right digital reflexes into the organisation will remain the foundation upon which each of the phases would be built.

PHASE 1: DIGITAL FITNESS

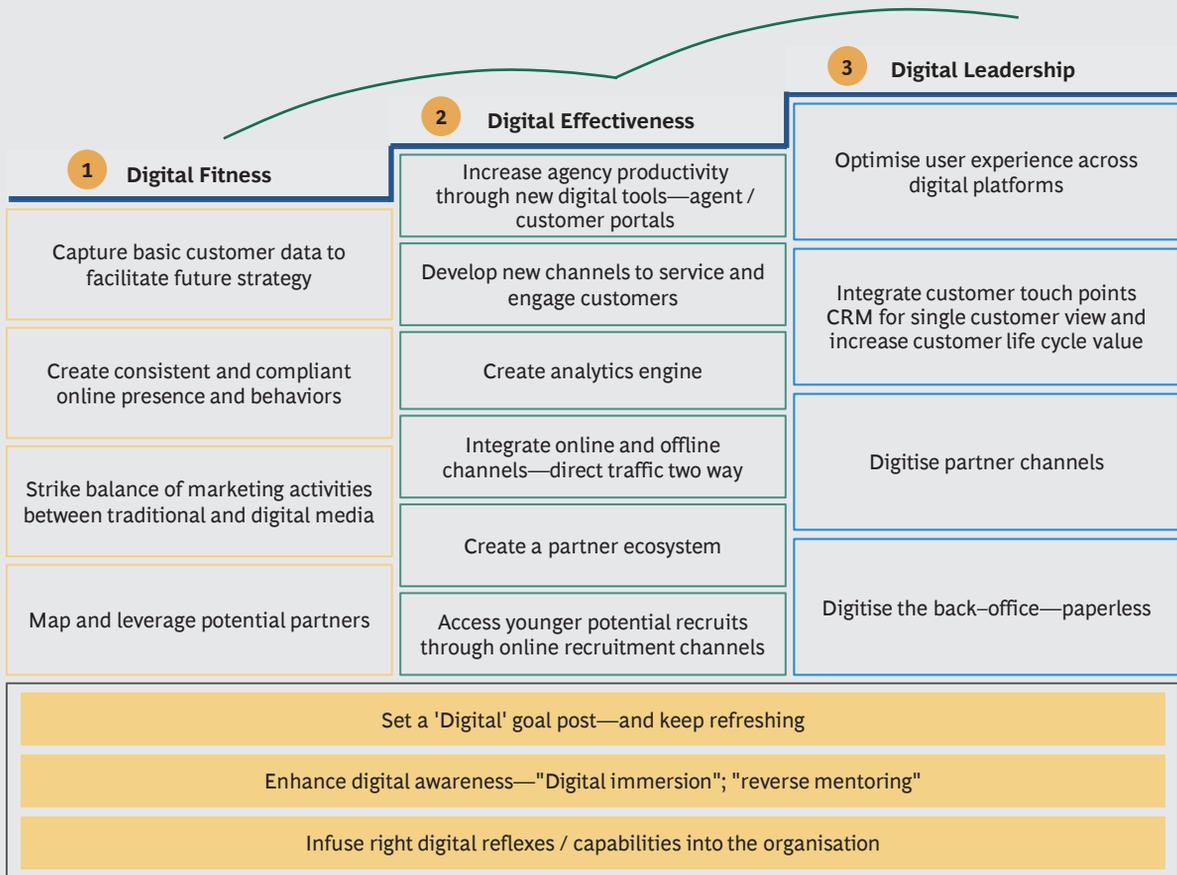
Insurers will need new capabilities to succeed as customer-centric digital businesses. The objective in this phase is to understand one's starting position and lay out the roadmap for adopting a more digitally focused business model.

The first step in this effort should be to put basic processes in place. To begin with, insurers should collect and verify existing customer data (mobile phones and email addresses) to ensure customer 'contactability' to facilitate any future digital strategy. A consistent and compliant online presence needs to be created with comprehensive social networking and other online guidelines put in place, aligned to the overall brand positioning. This should then be followed up by shifting appropriate focus of marketing activities from traditional media to digital media. Existing partnerships should be reviewed to identify additional partners required in the digital ecosystem. Potential partners would need to be mapped and evaluated.

The BCG Digital Insurer Fitness Diagnostic (as shown in Exhibit 4.3) guides the digital transformation by defining a customised roadmap. The starting point for the digital transformation agenda is assessing capability gaps across five major dimensions; this focuses on the right digital issues for a specific insurer.

The diagnostic reveals key digital gaps and risks, while also providing a preliminary as-

EXHIBIT 4.2 | Phased Approach to Building Digital Leadership



Source: BCG analysis.

assessment of the digital opportunities. The company's current capabilities, options for future targets, and major gaps vis-à-vis main competitors or industry peers are measured. A number of potential initiatives arise from understanding the gaps across the different dimensions. These can help define the overall objective of the digital effort, inculcate the right organisational culture and reflexes, and verify existing customer information as a starting point. The model also provides a clear picture of the resources required. It aligns with the recruitment need through linkages with HR and defines the right performance as well as the overall technology architecture and platforms to be adopted.

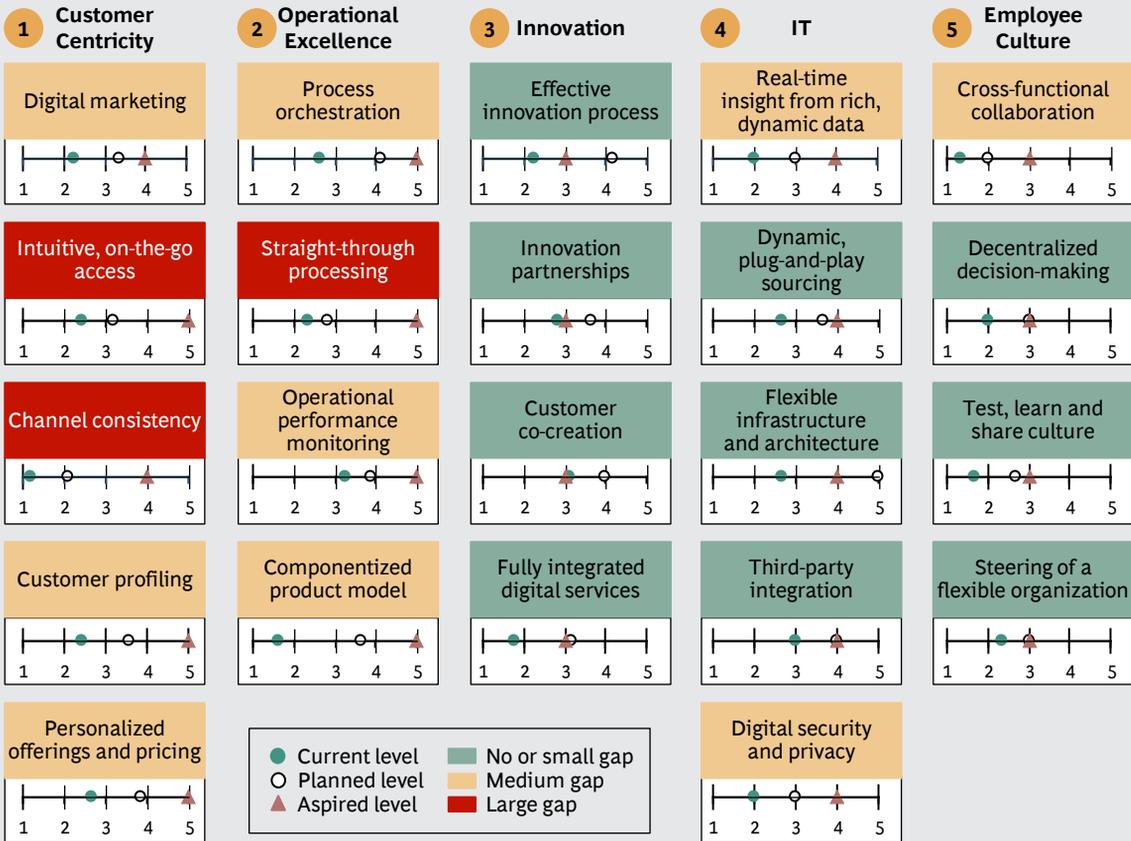
PHASE 2: DIGITAL EFFECTIVENESS

The focus in this phase is to enhance the core business. Digital tools and applications need to be leveraged to facilitate sales processes, free up agents' time for sales, and en-

able real-time KPI dashboard monitoring. A strong online sales channel with clear customer segmentation and proposition needs to be developed. This requires simple products and services to be designed specifically for the channel. Newer channels to service and engage customer proactively must also be created. This can be accomplished by creating an analytics engine which can use customer data and insights for better monitoring and analysis of customer issues / feedback. In addition, both the online and offline channels need to be integrated to direct traffic both ways. The online channel should be used to direct traffic and generate leads to agency through social media and other digital platforms. Digital effectiveness also means harnessing digital across different areas of the core business. A good step in that direction is using digital media (including social network sites) to attract potentially younger agents.

EXHIBIT 4.3 | BCG Digital Insurer Fitness Diagnostic

Illustrative



Source: BCG case experience.

PHASE 3: DIGITAL LEADERSHIP

Once a strong digital foundation is laid and initiatives to enhance core activities have been put in place, the last phase of the transformation effort is to enhance the offering to be a leader in the digital space. This includes extending efforts beyond the core, enhancing the user experience. Extending efforts beyond the core can include enhancing the user experience with focused efforts across platforms to engage users in product design, self-service and customer advocacy. An essential exercise is to integrate customer touch points ensuring a seamless experience for customers whichever channel (online or offline) they choose. This would require building an end-to-end CRM infrastructure for a single customer view and increased customer life cycle value. Taking successful digital initiatives like sales tools to channel partners; or digitising the back-office to reduce cost and improve efficiency

are also important initiatives to create a position of leadership in customer servicing.

Summary

Overall, digital provides a once-in-a-lifetime opportunity to transform the industry both in life and non-life insurance. Digital already is a critical part of insurance and the impact is only going to increase exponentially. The time now is not to question whether, but more about when, what and how. Insurers need to shake off the inertia and get moving. The transformation required in the effort and commitment is a quantum leap from where insurers are today, not incremental. To end – “The world is going digital. Are you?”

FOR FURTHER READING

The Boston Consulting Group publishes other reports and articles on related topics that may be of interest to senior executives. Recent examples include:

Improve P&C Profitability and Premium Growth: Six Steps

An article by The Boston Consulting Group, January 2014

Telematics: The Test for Insurers

An article by The Boston Consulting Group, December 2013

From Cash to Capabilities: Profitable Growth for Life Insurers

A focus by The Boston Consulting Group, November 2013

India Life Insurance—Navigating the Troublesome Teens

A report by The Boston Consulting Group in association with The Federation of Indian Chambers of Commerce and Industry (FICCI), October 2013

Customer-Centricity in Financial Services Goes Digital

An article by The Boston Consulting Group, October 2013

From Buzz to Bucks—Capitalizing on India’s “Digitally Influenced” Consumers

A focus by The Boston Consulting Group, April 2013

The Six Steps to Pricing Power in Insurance

An article by The Boston Consulting Group, October 2012

Transformation Amid Tough Times in the Insurance Industry

An article by The Boston Consulting Group, February 2012

Digital Insurance—Charting a Course to Best-in-Class Capabilities

An article by The Boston Consulting Group, February 2012

India Insurance—Turning 10, Going on 20

A report by The Boston Consulting Group in association with The Federation of Indian Chambers of Commerce and Industry (FICCI), April 2011

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