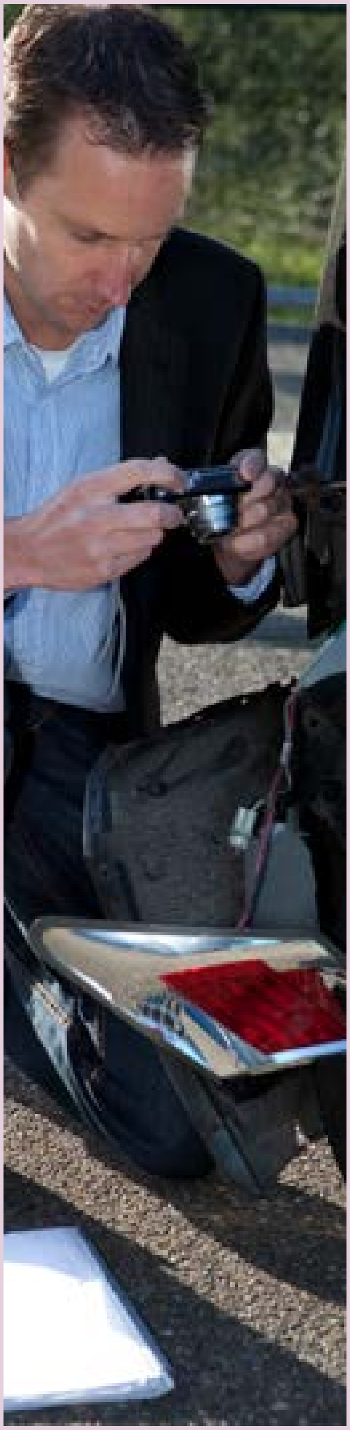
PERSPECTIVE



INSURANCE AGAINST DISRUPTION

Mohan Babu

Associate Vice President and Head, Insurance Practice Group, Infosys

Abstract

New disruptive forces continue to emerge, changing the insurance landscape constantly. Insurers must respond with a dual 'Renew-New' strategy – one that focuses on renewing core capabilities while simultaneously building new capabilities so that they are well positioned for a place in the new insurance landscape. In this paper, we elaborate upon some of the opportunities through the lens of this dual strategy.

Infosys®
Navigate your next

Renew and New: Responding to the Challenge to Transform

Insurance, among the oldest industries in the world, is being challenged to transform by a wave of disruptive forces that have been sweeping the business landscape in recent years. Traditional boundaries of competition are blurring, empowered customers are defining exacting performance standards for insurance providers, and a stringent regulatory environment is increasing the challenges of compliance.

To compete in the new paradigm, insurance service providers will have to adopt a dual strategy with the symbiotic theme of 'renew and new'. Companies must find creative ways to renew core capabilities to extract more efficiency, productivity, and performance. Simultaneously, they will need to innovate using the latest technologies to build new capabilities that will help them address some of their greatest known, and as yet, undiscovered problems.

We believe the following areas offer the maximum opportunities to insurers to 'renew and new' their way to transformation.

Renewing for Efficiency, Productivity, and Performance

As the industry undergoes a sea of change with factors such as the recessionary economy, regulatory changes, demographic shifts, shrinking premiums and reduced profitability, its expectations have changed. The industry now seeks integrated views of current and prospective clients to facilitate new business acquisition. This is making it even more imperative for insurance incumbents to explore the following opportunities for renewal.

- **IT simplification and modernization:** Legacy systems are one of the biggest challenges for the insurance sector. The situation is compounded by multiple disparate systems accrued over years of M&A. Simplification and modernization is the agenda here as insurers focus on consolidating core systems, modernizing legacy systems, and upgrading policy administration systems to increase agility, efficiency, and savings.

  While insurers have been investing in core systems modernization and consolidation initiatives for many years now, the industry is witnessing renewed focus in recent times and is accordingly leveraging a host of advanced technologies such as cloud, big data, advanced analytics, artificial intelligence, mobile, and social to streamline IT systems and processes. For instance, insurers are adopting big data and analytics solutions to address data quality challenges and consolidate data across the enterprise. Cloud computing is also playing a vital role in this agenda by enabling cost efficiency and economy of scale to free up resources that may now be used for more strategic purposes. Then there are technologies like mobile and social which when integrated into core system modernization, promise to improve the delivery and accessibility of services across channels. Going forward, we see artificial intelligence being used to automate large-scale systems transformation and migration processes to deliver big gains in productivity and accuracy.

- **Compliance capabilities:** Insurance is already a strictly regulated industry with further developments in the regulatory environment anticipated. Events of the not-so-recent past have resulted in regulatory collaborations at the global level to define a common framework that would govern internationally active insurance groups. Concurrently, market-specific regulations, like the Affordable Care Act (ACA) and Own Risk and Solvency Assessment (ORSA) in the U.S., and the Pensions Act and Solvency II in Europe and the U.K., are adding to the challenges of compliance.

  More importantly, the regulatory regime is still in a state of flux which means insurers will constantly have to upgrade their compliance processes and systems to stay on top of emerging stipulations and mandates. A renewed focus on data agility, quality, and governance will be critical to ensuring compliance. Towards this, insurers are starting to upgrade current systems and adopting solutions such as unified data repository, business intelligence, and data analytics to capture the required data for regulatory reporting and using solutions such as integrated / enterprise risk management for regulatory decision making. Going forward, big data and high-performance computing technologies will play a key role in further streamlining enterprise data, thereby improving the compliance capabilities of insurers. Neural networks and artificial intelligence techniques can be used for pattern recognition, and predictive and early warning alerts to ensure proactive compliance and avoid costly penalties.

- **Ease of doing business:** A diverse range of stakeholders characterizes the insurance industry. Apart from the agents – vital links in the value chain – there are customers, prospects, and large brokers, all of whom place demanding expectations on insurance companies ranging from speedy approval of applications to more streamlined processes for submitting paperwork, or accessing incentive reports. Web and mobile-based applications can fulfill such service expectations to a large extent. An auto insurance provider's mobile document capture initiative that allows policyholders to submit information through their smartphone is a case in point.

  Strengthening new business and underwriting systems to reduce cycle time is a primary requirement of the industry. The challenge, however, is to ensure that everything is connected intuitively, seamlessly, and in line with stakeholder expectations. Insurance companies need to focus on eSignature, eForms, and automated underwriting to enable seamless straight-through processing across the policy life cycle. They also need to create integrated workflows, real-time interfaces, self-service capabilities, mobile-based point-of-sale solutions, and modern compensation management solutions to simplify and streamline interactions for all stakeholders.

- **Customer retention strategies:** At a time when premiums, margins, and profitability are under intense pressure, the insurance sector will have to renew its focus on customer retention. As one insurance provider discovered, a mere one percent improvement in customer retention can lead to a $1 million increase in annual premiums.

  Retention strategies must also focus on maximizing premium per customer and creating opportunities for up- and cross-selling. Insurers need to heighten the level of customer engagement at every node in the value chain. Advanced analytics is a key lever of retention as it allows enterprises to leverage contextual customer insights that will help them align product and service strategies at the level of the individual customer. Likewise, a multichannel environment is central to providing a consistent experience across all customer touchpoints.

  With experience becoming the key metric used by customers to rate service providers, insurers must also build other capabilities required to create competitive advantage from customer experience. For instance, new technologies such as mobile and social can help insurers engage more productively with their customers. A number of insurers are creating mobile apps for customers and agents to enhance the insurance purchase, sales, and service experience.

New

While insurers are leveraging technology to renew their focus on enhancing core capabilities, the increasing availability of advanced and disruptive technological propositions are opening new avenues and opportunities and altering the business model altogether.

- **Emerging channels:** Agents and producers have traditionally been the cornerstone of the insurance distribution model. They promote and sell policies, act as financial advisors and are even responsible for collecting applications and premiums. But customer experiences with multichannel self-service functionality in other sectors will soon come to bear on the insurance industry. Going forward, emerging channels such as mobile, social, IP TV, insurance debit / credit cards, kiosks, etc., will increasingly disintermediate agents.

  Insurers, therefore, need to refresh their distribution strategies to include newer channels even as they redefine the traditional approach-based on current technological possibilities. They should develop an integrated holistic distribution strategy that includes digital channels such as online, mobile and social to provide a consistent experience across all customer touch points. Key to achieving that is the ability to process cross-channel transactions leveraging portal, mobile and social technologies using a wide range of analytics, metrics and predictive modeling solutions.

- **Expansion into new markets:** Emerging markets such as the BRIC countries (Brazil, Russia, India, China), with their growing middle-class and limited penetration of insurance services, represent the next big opportunity for insurers to sustain or even accelerate growth momentum.

  Here again, digital technologies are a key driver of growth as they empower insurers to expand into new geographies by leveraging the inherent efficiencies of direct channels to broaden their footprint quickly and cost-effectively. In many of these emerging markets, technology can act as the differentiator required to establish a presence, launch innovative products, and rapidly scale up reach.

  Specifically, insurers can leverage analytics to analyze data on different markets to select the ones to penetrate. Once they enter, they can use direct channels such as mobile to extend their reach in these markets without heavy investment in physical infrastructure. With the emergence of cloud technologies, insurers can leverage their existing IT systems and infrastructure to roll out similar capabilities in the emerging markets without significant upfront investment. This will ensure consistency in services across locations while providing a cost-effective alternative for quickly entering into new geographies.

- **Customer experience:** Customer experience was never quite a corporate motif in the insurance industry given the traditional agent-centric approach to acquisition and service. But as the industry shifts to a multichannel model, experience is the strategic metric forcing insurers to focus on delivering a personalized and contextual experience to their customers.

  As experience becomes the differentiator, insurers must harness the power of social collaboration technologies to create a two-way customer interaction that increases engagement. SMAC investments will be crucial to enhancing experience as will developing mobile apps for agents and customers and integrating them into the sales and prospecting process while empowering customers with self-service features. Insurers should also focus on contact centers to streamline integration across all service channels.

  Similarly, the social internet and other collaboration technologies will enable insurers to engage more effectively with customers, while self-service mobile customer apps will not only be critical to customer experience but also create an opportunity for competitive differentiation. Leading insurance providers have started out on this path with features like a wellness social game and a unified customer data interface. Gamification is emerging as an effective tool for customer engagement and is going to play a critical role in sales and marketing, customer service, and campaign management and should be part of every insurer's strategy.

- **Internet of Things and wearables:** A connected world like the one envisioned by the Internet of Things (IoT) raises immense possibilities for every industry, including insurance. The emergence of connected cars and homes provides insurance companies with the information – on hazards, exposure and risks to the insured – required to improve underwriting decisions, manage claim losses, reduce fraud, and enhance the service experience. Telematics is already changing the way the personal line auto insurance industry deals with risk and pricing by shifting to a usage-based model that utilizes individual driving patterns and behaviors rather than generalized demographic models. Some insurance providers have successfully rolled out usage-based insurance programs and many more are following suit. Home insurers are also leveraging IoT technologies to provide more value added services to customers. For instance, insurer State Farm has partnered with smart home specialist ADT to provide their home insurance customers with home automation and security solutions.

  Wearables are making a foray into the life and health insurance industry and are enabling insurers to evaluate risk, determine loss rate, and underwrite claims or price products more efficiently and accurately by aiding such decisions with real-time information about customers' health and lifestyle habits. There is a paradigm shift in the perception of life insurance in light of the consumer wearables and related technologies as insurers shift their focus from living benefits to well-being benefits, protection to proactive prevention, and fixed premium to flexible premium. A case in point is New York-based Oscar Insurance Company which has launched a reward program from January 2015 under which customers will be able to earn 1 reward dollar every day when they reach a set target of daily physical activity. When their account hits 20 reward dollars, they get a $20 Amazon.com gift voucher. Users can earn up to 240 reward dollars annually.

  Besides the above uses, IoT and wearables have also provided a horizontal market opportunity to share critical information with other sectors like energy, automotive, etc. This is just the beginning though, and going forward, consumer wearables and smart machines will have a huge impact on the way insurance is sold and serviced.

Conclusion

The new business climate is one that compels innovation and will result in the radical transformation of traditional structures including business models, systems, processes and strategies in the insurance industry. But any approach to transformation and innovation that focuses exclusively on the incremental renewal of existing systems or the enthusiastic appropriation of new technologies will prove to be either entirely inadequate or extravagantly impractical. The challenge is to strike a balance between organic and inorganic transformation to create an enterprise that has the functionality to compete in today's marketplace and the flexibility to adapt to tomorrow's market dynamics.

For more information, contact askus@infosys.com