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Operational Excellence / Transformative Strategies for Insurers



3rd Annual

Operational Excellence
in Insurance



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The insurance market has been **under pressure to transform** for many years now. **PWC** identify five distinct pressure points: social, technological, environmental, economic and political. Their **'2020: Competing for Future'** report describes how "[this is] a time of massive and potentially disruptive change. As customers become accustomed to the **ease, elegance and intuition** of the Apple/Amazon 'experience', they want the same accessibility, transparency and responsiveness in their life insurance and pensions products." All service sectors have been affected by the Apple/Amazon 'experience', but the insurance market has the advantage of being keen to **embrace innovation**: the PWC data for 'Readiness to innovate' puts insurance just behind the entertainment, technology and communication markets, and far ahead of banking services and healthcare.

While the **competitive landscape** is experiencing significant shifts and technology continues to disrupt the market, insurers also have lots of opportunities to respond, **adopt change**, transform their services, and become the provider their customers are looking for. Here we outline five strategies for organizations that want to **succeed** in the new generation of insurance services.



Digitization

The Digital Age has impacted every market and industry sector in some way, and for the form-filling, paper-cumbersome insurance market the opportunities are plentiful. Mobile technology holds a lot of potential for insurers as a way to create closer relationships with their customers. EY outline this potential in three points: insurers want to offer their services through mobile, they want to broaden their customer base (to those who want mobile), and they want to increase satisfaction with their existing customers. The reality is that every customer demographic expects to be able to access a service-based business through his or her mobile devices.

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Geico (Government Employees Insurance Company) are well known for their cute mascots and memorable advertising campaigns and in recent years they have also been picking up awards for their mobile application. The app provides customers with ease of access to a range of information and tools to make managing their policy more straight forward and more enjoyable. A key feature of the app is 'On Track', an interactive accident guide providing assistance for starting the claims process and viewing real-time details of the claim as it progresses. By way of comparison, Centric Digital have crunched the numbers and found that "Of the top five car insurance companies by market share, the Geico app is, by far, the highest rated." This shift of putting the customer directly, hands-on with their policy, with the ability to make changes, pay bills and obtain

quotes is not only satisfying the customers' wants but also streamlining the organization's operations. Digitization and customer centricity go very much hand in hand: digitization is core to the customer and the customer is core to digitization. But what is also the case is that digitization drives a major benefit back through the business in the form of highly improved operations. As customers are given the ability to access self-service functionality through mobile technology (and other digital channels) the burden to the organization is reduced and resources can be reallocated effectively.

Process Efficiency

The principle of process efficiency or performance improvement is to increase the organization's ability to deliver goods or services. In the current climate, insurers are in definite need to improve how they deliver their services and so process efficiency strategies can be of direct benefit: identifying and stripping out 'waste', removing bottlenecks and allowing resource to be reallocated throughout the organization



There are lots of tools and systems that contribute towards process efficiency and big data is one of those – providing detailed, timely, accurate insights that can lead to better business decisions.

Allstate Insurance began developing their big data strategy in 2011 as the company was emerging from a troubled period. They now have an extensive data science department mining information to develop new products, improve communications and direct process efficiency efforts. A Fortune article reviews how Allstate overhauled its business with data and summarizes: “A hard look at how data could be better used internally has helped insurance company Allstate tighten its operations and reduce its risk.” Risk exposure is a key determining factor in an insurers profit and loss so the application of big data to improve processes and make more informed business decisions was welcomed by Allstate. As the data department gathered momentum, proved itself and grew, they began to work on new algorithms and predictive modeling which led to even more precise information and even better business decisions. Allstate’s chief data officer Floyd Yager describes, “it does exactly what it was designed to do: make us transactionally efficient on a product basis.”



increased output and cost savings. The cost savings, when taking in levels of ‘superhuman activity’, were predicted to be significant and emphasize the importance of having an organization that can adapt its structure in order to fully embrace new opportunities such as automation.

In the insurance market the first wave of automation has led to some much needed consolidation of systems, processes and data sets. American National implemented new technology that supports automated underwriting, having first consolidated a number of their legacy systems. The new technology has multiple features, Meredith Mitchell, vice president, Application Development and Support at American National highlights a particularly strong feature: “[the engine] allow[s] you to put your rules in and would apply logic to the cases and get the auto issue rates that we wanted out of our business.”

American National have seen specific benefits from the automated system: streamlined processes, quality feedback into the product development phase, and the ability for the insurer to offer self-service to policy holders. Self-service was so well received by customers that it was ramped up to two additional phases.

Clearly the decision to automate processes in the back end has the advantage of driving benefits all the way through to the customers and their experience.

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Automation

With the rise of digitization and machine learning, automation has become more and more widespread, and as automation advances into artificial intelligence and robotics, the opportunities are even more extensive. An article from McKinsey & Company summarizes the business benefits of automation as: increased reliability, higher quality,

The Internet of Things/ Telemetry

2016's buzz phrase, the Internet of Things, actually has the potential to be more than just a fad in the insurance market. Through connected ecosystems, embedded technology and machine intelligence, insurers can begin to access highly personalized, real-time data that can customize the marketing, the product type and price, and claim service, that customers receive. Crucially it can also provide highly accurate data to impact the insurers' risk exposure. As Insurance Innovation Reporter describes, the Internet of Things provides insurers with "more touch points and opportunities for interaction", but more importantly technology is having impact at "a deeper level by causing a significant realignment in the fundamental risk variables that drive the insurance business model." In this environment, with the source of risk data changing dramatically, there is great opportunity for new operating models within the industry.

Metromile is a usage-based insurance company that uses a device connected to the customers' vehicle to track exact mileage. The device feeds the information to a mobile app and that calculates the customers' monthly premium for pay-per-mile insurance. Customers only pay insurance for the miles that they drive. The product is aimed specifically at low-mileage users who currently 'over pay' through traditional products.

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Metromile have used advanced technology to target a specific customer segment and in doing so have also created a new type of business model, eschewing the traditional structures that are associated with insurance companies. With their technology and customer segment at the heart of their product and business development Metromile are a good example of excellent application of telemetry.



Outsourcing

“Business process outsourcing (BPO) is increasingly being used by insurance companies because of economic pressures, changes in regulation, more fraud and a shift towards serving more consumers,” according to an article on Out-Law.com based on research from Everest Group. Outsourcing delivers benefits to the business by providing the advantage of specialist skill sets while simultaneously reducing the cost of those operations. For a long time outsourcing has been the prevail of ‘simple’, transactional functions but Everest Group identify that even data analysis and advanced analytics are being considered for outsourcing opportunities now because they play such a big role in the insurance organization: “[outsourcing] service providers are able to make top-line impact as well as bottom-line contributions for their insurance BPO clients”.

Earlier this year QBE Insurance confirmed a deal to have its end-to-end advanced and predictive analytics managed by a business process outsourcer, a move that shows the commoditization of data within insurance companies and the value of extracting this specialist function to benefit from dedicated expertise.

Allianz Life Insurance Company of North America decided it needed to outsource its regular transaction processing in order to free up resources and concentrate more on relationship-based activities. The change resulted in significant operational cost savings, improved service levels and higher customer satisfaction. As the outsourcing trend moves towards more sophisticated operations, including advanced analytics, the potential benefits could indeed be substantial.



While the insurance market is experiencing **intense pressure** and is faced with crucial **decision making** about how to transform for the new operating environment, there is definitely hope and opportunity for companies that are willing to flex and embrace change. **Digitization, process efficiency, automation, telemetry** and **outsourcing** are five different strategies that can set insurers on the path to success, and crucially they have the same vision in common – putting the customer at the center of the operation. If insurers succeed in developing their products, organizational structure, marketing, processes and customer service with excellent customer experience as the goal then it is customers and organizations that will benefit in the end.

