Insurance to the Power of Digital

# Core Process Augmentation and the Future of Insurance:

## An insurance executive's guide to digitalizing underwriting and claims

**Enterprise to the Power of Digital™**

# Introduction

Looking at the current state of insurance it's clear that several threats as well as opportunities lie ahead. 2018 saw fragmented growth in the P&C segment, with locational variances accounting for much of the growth, according to research.[1] Underwriting performance particularly is showing a promising upswing, recovering from 2017's $3.7 billion loss globally. Life insurance, on the other hand, continues to struggle in developed countries with a 2.7% dip in premiums -- on an average premiums have shown no growth in the life segment, indicating a stagnation. On top of all of these trends, the hint of an economic slowdown in 2020 could hinder insurer growth -- the chances of this happening is as much as 40%. To come out on the winning side of this dynamic market landscape, existing operations will require a massive rethink.

> So, what does this mean for insurance companies? Clearly, it is imperative to leverage the latest technologies to gain a definitive edge over competitors. It will help firms move up the ranks, establishing themselves as industry leaders in a dynamic market scenario. The top technologies to be considered in this context include data analytics, Artificial Intelligence (AI), machine learning, and the Internet of Things (IoT). Together, this will help to better address the demands of millennial customers, giving them the personalization, they are so eagerly looking for. Equipped with more effective products, an accurate underwriting process, and hassle-free claims processing, insurers will be able to boost loyalty like never before.

# Five Key Challenges Plaguing Underwriters and Claims Managers

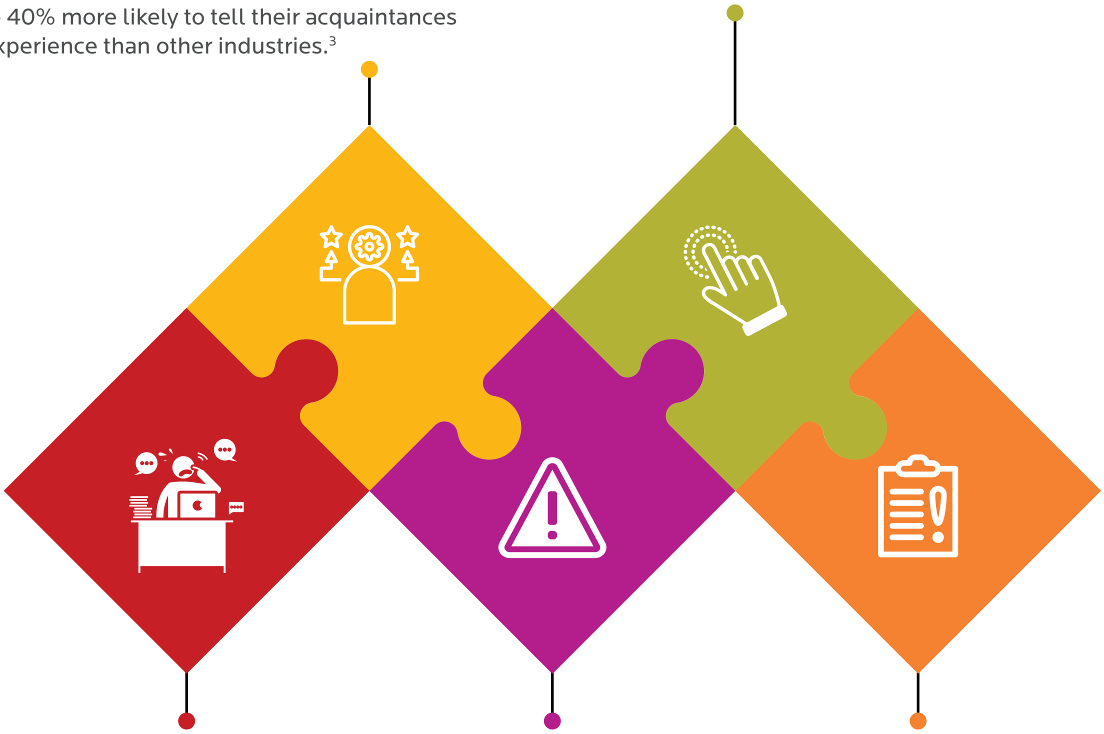
It isn't just the worrying numbers pushing insurers to rethink their underwriting and claims management practices. On the demand side, there's now a whole new generation of digital-native customers who expect the speed and convenience of digital services in insurance as well. On top of that, the industry is going through a dynamic period of regulatory changes. The changes in political leadership, cybersecurity threats, and emerging product variants will compel insurers to modernize their compliance stance. This requires an incredibly agile underwriting & claims practice that can quickly adapt to fresh regulations. Briefly, the challenges faced across the underwriting value chain can be summed up as:

## 1. Sub-par customer experiences at the time of application submission

Customer experience or CX has always been a pain-point for the insurance sector, rated well below the average for other industries. For instance, CX for health insurance ranked among the lowest studied by Forrester Research, coming in at 15th out of 19 categories.[2] This can cause irreparable damage to customer loyalty, driving value-seeking customers to competitive firms. Unhappy insurance customers are 40% more likely to tell their acquaintances about a bad experience than other industries.[3]

## 2. Dependence on manual effort when assessing and prioritizing applicants

In the BFSI sector, customers have traditionally looked for the "human touch," necessitating frequent manual interventions. But as business volumes continue to rise and customer support becomes a more complex activity, this is an untenable dependence. Several errors can creep in at the underwriting stage if it's only human executives performing the calculations.



## 3. Inefficient processes during the extraction of data from submissions

This is critical to the bottom line of any business. Back-end processes that rely on manual efforts, siloed data sources, and overall organizational fragmentation can cause processes to become unsustainable over time. As a result, the firm fails to scale up and achieve the level of growth that it requires. This is among the key factors holding back firms from taking advantage of a favorable market climate.

## 4. Inadequate evaluation of risk exposure, leading to incorrect quotes

This is particularly relevant for commercial P&C where risk levels can be extremely high, the cumulative product of multiple factors. Conversely, ineffective underwriting can cause errors in risk analysis, bloating a potential customer's risk profile where the reality is far more bullish. Insurers unable to assess their risk exposure will either open themselves to loss or lose out on profitable business opportunities.

## 5. The possibility of non-compliance due to legacy underwriting practices

With regulatory norms changing so rapidly, it is imperative for insurers to keep up. Failure to comply will result in sizeable fines and penalties, going as far as impacting business viability. Trends such as cybersecurity risks, customer data privacy concerns, and the pervasive nature of insurance fraud are pushing regulatory authorities to clamp down on insurance providers. There's also the question of third-party risk in an increasingly interconnected insurance landscape.

For these reasons, among others, insurers must abandon their age-old approaches to underwriting and claims management in favor of technology-empowered models.

# Paving the Way for Augmented Underwriting with IoT, Analytics, and AI

Digital tools could come in at virtually every moment of truth on the insurance value chain, right from product conceptualization to support services and reinsurance. In the underwriting and claims management stages specifically, there is immense potential to leverage data, advanced analytics, and cognitive insights, enabling augmented underwriting capabilities.

## IoT will revolutionize underwriting data collection and claims validation

IoT is built on a distributed network of sensors that can be deployed anytime, anywhere. At the time of augmented underwriting, IoT can help collect information from commercial sites that may be overlooked by a human executive. In fact, insurers don't even need to be physically present to collect and validate the data. Consider, for instance, a commercial site that has submitted a claim after witnessing a natural disaster. Sensor-embedded drones can be deployed to the area, transmitting images in real-time to evaluate damage to property. Apart from ensuring data completeness and accuracy, it also reduces manual workloads while improving safety levels. IoT use case in augmented underwriting, is the integration of telematics with vehicle insurance – commercial fleets can be connected with telematics platforms to monitor driver behavior, risk patterns, and real-time damage.

> It's no surprise, therefore, that the IoT for the insurance market is poised to explode, growing at nearly 66% CAGR and crossing $42 billion by 2022, and augmented underwriting is rapidly gaining traction as a bold, revolutionary force that promises to bring landmark shifts/progression to the insurance sector as a whole.[4]

## Analytics will optimize underwriting and reinsurance

If data is the new oil, analytics is that essential pipeline through which insights are delivered. Advanced analytics – spanning historical, real-time, predictive, and prescriptive models – will completely change how underwriters assess submissions. For instance, fraudsters and legitimate insurance customers are often grouped together in the personal P&C sector, leading to valid customers losing out on low-cost insurance policies. In reality, the number of fraudulent claims will always be a fraction of the total volume. Analytics can help to weed out fraudulent scenarios, ensuring that personal P&C customers receive the insurance package they deserve. The same applies to reinsurance as well; by applying advanced statistical models to previous claims data and risk information, insurers can push their upselling initiatives at the time of renewal.

> Clearly, the possibilities here -- powered by augmented underwriting -- are truly game-changing. Analytics can fine-tune the insurance process to a far higher degree of consistency, error-proofing and galvanizing its ability to deliver genuine value, with minimal obfuscation. The insurance analytics market is booming at a 12.5% CAGR between 2018 and 2023, expected to reach nearly $12 billion by the end of the forecast period.[5]

## AI will give insurers actionable insights to generate value

AI and Machine Learning (ML) are an exciting area of innovation in the insurance sector. They can be extremely helpful at the time of claims validation, automatically learning from previous claims scenarios to become incrementally more accurate. With business volumes growing exponentially, AI will become a staple for augmented underwriting, across global insurance giants. Another area where AI has proved to be effective is in customer service and customer relationship management. AI-powered chatbots can collect data from customers at the time of submission, aiding the underwriting process. Similarly, bots can answer frequently asked queries without requiring and insurance executive to be available 24/7.

> According to 72% of consumers, insurers use confusing jargon that makes it difficult to navigate the nuances between different policy types and packages. This can be addressed by AI bots -- insurance company, Lemonade, was even able to settle a claim in 3 seconds, thanks to AI technologies. Apart from improving customer experience, but in conjunction with analytics, it also offers key insights on customer targeting and how to design new products.[5]

Interestingly, these three technology trends go hand-in-hand – by leveraging IoT for data consolidation, analytics for insight generation, and AI for continuous improvement and value addition, firms can futureproof their underwriting and claims management capabilities, and achieve their augmented underwriting objectives.

# What's at Stake for Insurers?

The stakes are extremely high for the insurance sector – on the one hand, there's an emerging group of customers eager to experience personalized insurance products and services. By leveraging AI and analytics in the underwriting stage, insurers can tailor each policy to unique customer needs. On the other hand, fraud instances are on the rise; a sizeable 3-4% of claims across the globe -- that is one out of every 30 claims -- are identified as fraudulent.[6] Investigating them can end up extending the expected claims processing time by 8 times, severely damaging the customer experience. There's also the question of unreported fraud -- 37% of insurers have never alleged fraud, and only declare misrepresentation to denying claims. Augmented underwriting and claims management can help to make insurers more confident in the validity of claims, while also achieving the following benefits:

**Automate processes**

This will be step #1 as insurers look at the future of underwriting and claims. Manual efforts can be redirected towards more strategic areas, such as analyzing customer analytics insights to come up with clutter-breaking insurance products.

**Minimize loss**

This is probably the most obvious benefit of adopting a technology-first posture. Losses arising from fraudulent claims, human errors, and missed-out business opportunities can be entirely avoided by using AI and advanced analytics supported by IoT data.

**Improve customer experiences**

This has become an industry imperative in the last few years, as digitalization changes what customers expect from their insurance providers. Data-driven policy personalization, 24/7 support on chatbots, and accelerated claims processing will significantly impact CX.

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| **Boost revenues** | Apart from loss minimization and bottom-line improvements, technology also has the potential to uncover new areas of growth. For instance, segments that were earlier perceived as high-risk for commercial P&C can now be explored via analytics-led risk modeling. |
| **Optimize insurance predictions** | Success in the insurance sector depends on the degree and accuracy of the foresight that firms are able to achieve. Predictive insights powered by historical patterns and real-time information will make insurers resilient to regulatory changes and market flux. |
| **Reduce attrition** | Avoidable customer churn costs US businesses $136 billion, and the price of acquiring one new customer in insurance is extremely high, at $303. Analytics and personalization will help to strengthen customer loyalty, reducing the risk of attrition and associated costs.[7] |
| **Futureproof the culture** | In the digital era, insurers cannot hold onto a legacy working culture. The strategic injection of technology will help to empower employees in the underwriting & claims function, driving profitability, productivity, and a stronger culture at work. |

> Clearly, there is incredible potential when it comes to implementing the latest digital innovations for insurance. Going by the recent trends and metrics, insurers must necessarily adopt AI, IoT, and analytics-enabled tools if they are to stand out against the competition and move forward in a gradually stagnating marketplace.

## Why the Future of Insurance is Already Here

Going by the numbers, there's ample room for future-focused insurance providers to embrace technology and drive growth. Market conditions are largely favorable, with the net premiums in global P&C growing by 12.7% between 2017 and 2018.[1] Underwriting performance has also improved, rising from the $3.7 billion loss of 2017 to a $6.7 billion gain in one year. Yet, luck has a lot to do with this growth, as global losses due to natural disasters came down by one-third. To continue this growth streak, therefore, insurers must take a proactive stance and use technology to sustain the edge that they have gained in the last couple of years. This involves the strategic implementation of IoT, AI/ML, and analytics capabilities as part of core insurance operations.

# Final words

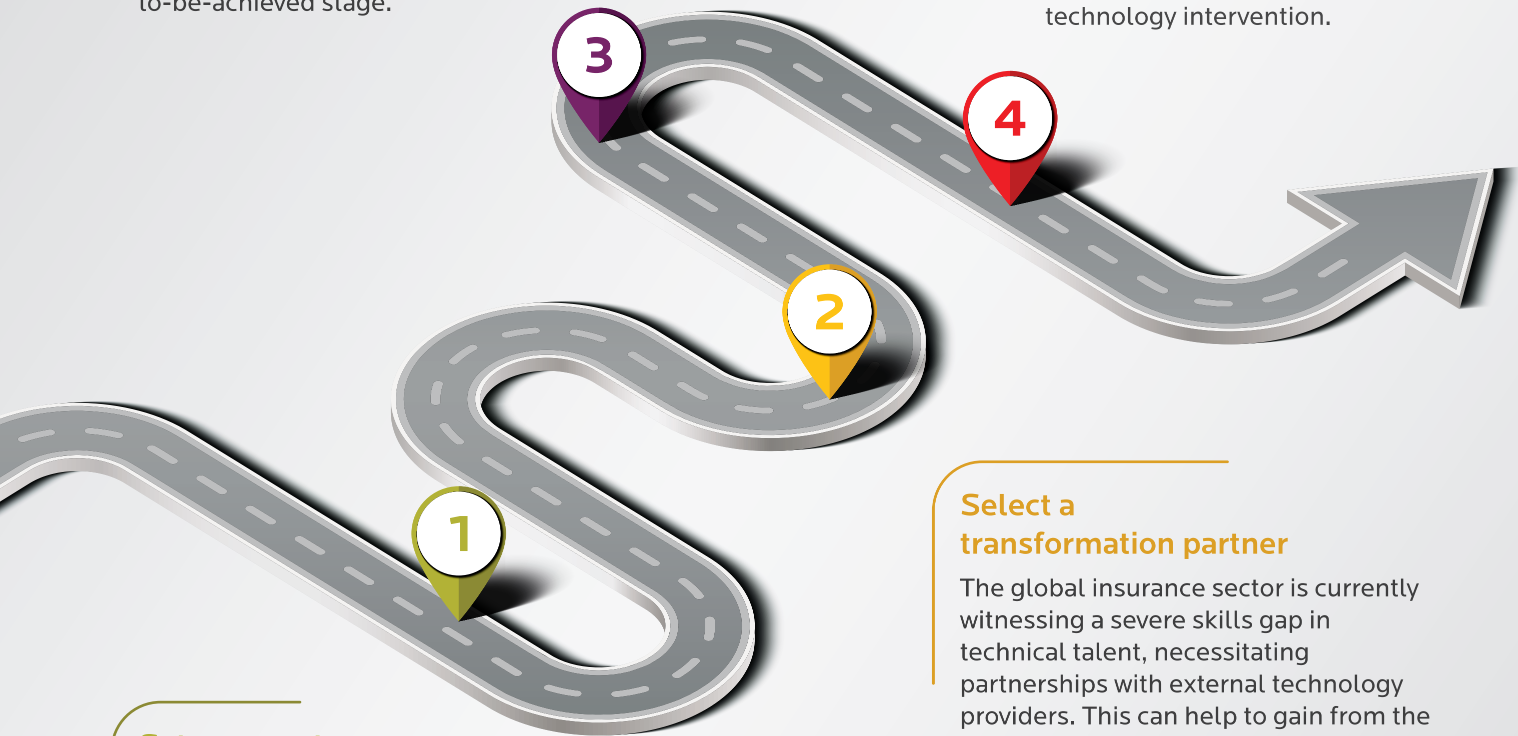
To successfully leverage cutting-edge tools and achieve an augmented underwriting practice, insurers must follow this roadmap.

### Outline the execution roadmap

The external provider, aided by R&D insights, will be able to furnish a business-specific transformation roadmap covering immediate, near, and long-term objectives. This will take into account key challenges on the underwriting value chain, and the to-be-achieved stage.

### Embrace continuous innovation

By investing in foundational R&D, firms will be able to identify the use cases that would gain the most from technology intervention.




### Select a transformation partner

The global insurance sector is currently witnessing a severe skills gap in technical talent, necessitating partnerships with external technology providers. This can help to gain from the latest digital innovations at a minimal outlay.

### Set up a center of excellence

By investing in foundational R&D, firms will be able to identify the use cases that would gain the most from technology intervention.

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