



# PREFACE

The insurance industry has come a long way in terms of technology adoption, especially with the rise of InsurTech. With 2019 fast-approaching, many of the realities of the industry have changed. Providers are now looking for ways to cut middlemen, while also enhancing customer experience at the same time.

Vendor partnerships have traditionally helped insurance providers with basic business processes and non-core activities. Going forward, most of the sales and technical aspects will be handled by outsourced vendors. Choosing the right partner can offset over-investment in technology, compliance issues, and inability to adapt to market changes.

In this eBook, we take a look at 10 important outsourcing trends that will dominate the insurance industry during 2019 and beyond.

## In Short, This Document Will Help You To

- Understand the most important outsourcing trends in the insurance space
- Compliance and regulation issues that dog the providers
- Making technology-related decisions with the help of specialized partners
- Understand seismic changes taking place in the realm of customer experience
- Integrate automated and human-operated processes for better results

# EXTERNAL PARTNERS TO DRIVE DIGITAL ADOPTION & OFFSET TALENT PAUCITY

While insurance providers have astutely realized the importance of digital and financial technologies, one can still observe paucity of alignment between operating models and digital strategies. According to Accenture<sup>1</sup>, only 31 percent of CEOs felt their operating model was accurately aligned with strategic growth initiatives. Key parts missing in the puzzle include a digital culture within an organization, insurance-aligned technical talent, and affordable technological solutions.

In addition, the market environment within the insurance realm leans heavily towards online customer self-service. A Microsoft<sup>2</sup> study revealed that 70% of customers expect a deep integration of online self-service. This expectation is aligned with customers' desire for seamless underwriting, policy purchasing, and claims processing experience, with brokers rapidly losing their relevance.

## There Are Partnerships For Every Requirement

A flexible sales process that replaces the traditional sales model dominated by policy brokers is already in place. Contributing to this development, and helping smaller insurance players to compete with larger providers such as Axa, Aviva, etc., are a variety of external vendors.

**There are outsourced solutions for practically every need today.**

- Agencies can help insurance providers to adopt a digital-first strategy
- Build online self-service modules on web portals and mobile applications
- API partnerships that are scalable and faster to implement
- Dedicated hiring and other workforce recruitment model reduces insurance providers' need for internal talent

An Accenture report states that underwriting profits can ascend by 100% if insurance companies adopt digital transformation<sup>1</sup>.

Self-service digital insurance claims processing is the preferred operational mode of 94% of customers, according to a report<sup>2</sup>.

# CHOOSING A CUSTOM PACKAGE OF COMPLIANT TECHNOLOGIES

Insurance providers are finding it increasingly difficult to navigate through the convoluted path of technological compliance. Globally, many policy brokers and sellers have paid millions in fines for failing to comply with a variety of regulations. Denying coverage, failure to communicate about policy renewals and cancellations, and data breaches can all result in hefty fines and lawsuits. A growing body of literature shows that partnering with an external agency that prioritizes compliance helps avoid hefty fines.

While any agency that specializes in insurance-related processes can help in automating processes, they may not be aware of complex compliance requirements. Technological compliance involves using regulation-compliant technologies.

## Vendors Offer Compliance Knowledge As A Service

As insurance laws and regulations related to compliance vary across borders, it makes sense for insurance companies to choose compliance packages, instead of purchasing different individual compliant technologies. Compliance requires legal knowledge and practice, and insurance-related legal service vendors can help insurance providers to a large extent.

- Critically evaluate and process claims using technology, and avoid fines
- Use compliant technologies to renew or cancel policies
- Purchase packages of compliant technologies over the cloud, to reduce the cost burden
- Subscribe to cloud-based legal services specifically targeted at insurance providers

Travelers Insurance Co. and Liberty Mutual Insurance Co. paid \$154,000 in fines<sup>3</sup> to the state of Vermont, USA. This was a result of failing to communicate about policy cancellation and renewal in time.

Aetna was asked to pay \$15 million in damages<sup>4</sup> to a couple for having denied coverage three times, even when it was covered under their plan.

# SEEKING HELP TO PROTECT CUSTOMER DATA

Insurance companies often feel restrained by the number of regulations they need to comply with. A few of the regulations<sup>5</sup> that most insurers will need to comply with include ComFrame (Common Framework for the Supervision of Internationally Active Insurance Groups), GDPR (General Data Protection Regulation), MLD4 (Money Laundering Directive 4), PRIIPs (Packaged retail and insurance-based investment products), and HIPAA (Health Insurance Portability and Accountability Act of 1996). Most of these are applicable to all insurers operating in the EU or North America, and specific compliance requirements depend on the jurisdictions in which the providers operate.

GDPR and HIPAA, in particular, place emphasis on the importance of client privacy and data protection. Technologies that do not comply with GDPR and HIPAA requirements may result in severe penalties and loss of reputation.

## Vendors To Play An Advisory And Managerial Role

In the coming months, vendors will help pick and choose compliant technologies, offer them as a package, and offer advice related to managing reputation. Reputation is particularly important for insurance companies which depend on their perceived level of trustworthiness among customers. Few roles that vendors are expected to take in 2019 include

- Developing and implementing web and mobile-based technologies that comply with various regulations
- Compliance with local data protection laws can be achieved by consulting external vendors

- Reduce and minimize instances of cybercrime by choosing cloud-based data surveillance services and security implementation solutions.
- Manage client reputation as an asset, with the help of external reputation management agencies

For a small business<sup>6</sup>, the average cost of a cyber-breach may range from \$98,600 to \$409,000.

Marsh India, an insurance brokering firm witnessed an increase of 50% in businesses purchasing cybersecurity cover last year<sup>22</sup>.

# ACQUIRING MARKET INTELLIGENCE (MI) IS NO LONGER PROHIBITIVELY EXPENSIVE

The cost of customer acquisition can be limiting to most insurance companies, especially if they are entering a new market. One of the ways insurance companies can acquire actionable Market intelligence is by adopting the outsourced model. An outsourced model for the sales process works best when the external partner uses cutting-edge technologies such as marketing automation, Big Data, and predictive analysis.

It is possible to develop custom CRM tools that comply with regulations and legally track customer journey to derive valuable insights. These insights can be used to design campaigns, tweak existing products and services, and even enhance customer experience.

## Vendors To Share Affordable But Valuable Market Intelligence

Most specialized vendors will begin to help insurers by sharing actionable Marketing Insight with insurers. Such insight is often cost-prohibitive to acquire without huge investments in technology.

- Vendors will increasingly help insurance providers to acquire actionable Market Intelligence, aiding in customer acquisition
- Previously inaccessible technologies can be accessed while complying with technology-related regulations at the same time
- Track and analyze customer buying journey, without risking non-compliance and hefty fines
- Enter new markets and tweak existing products with the help of specialized knowledge of cloud sales teams

Most insurance providers, when asked, admitted that technology limits their ability to bring new products to the market

61% also admitted<sup>7</sup> that they currently do not outsource their sales process, while 23% said they would consider

# EMERGING TECHNOLOGIES WILL CHANNEL SEAMLESS TRANSACTIONS

Market-driven competition is driving policy buyers towards new entrants, who often have access to advanced technologies such as smart contracts, distributed ledgers, and blockchain. Traditional insurance providers haven't been particularly quick in adapting to the changes, and in adopting these paradigm-shifting technologies. Customers expect seamless transactions right from choosing a policy and buying it, to renewing it and making a claim.

Distributed ledgers and smart contracts help insurance players to authenticate identities, underwrite policies, and process claims seamlessly. In addition software integration, delivered via cloud-based Integration as a Service (IaaS), will become a necessity for insurance players to sustain seamless experiences.

## Outsourced Models Help Adopt Emerging Technologies

Vendor services include cloud-based IaaS, smart contracts, and distributed ledgers specifically targeted at the insurance industry. For example, openIDL is a network developed on the IBM Blockchain Platform, which automates regulatory reporting and streamlines compliance procedures. Vendors will focus on delivering custom IaaS, Blockchain-based smart contracts and distributed ledger-based authentication<sup>9</sup>, and claims processing.

- Vendor-provided blockchain solutions to help insurance players bring seamless policy experience to customers
- Distributed ledgers to help authenticate and process claims automatically
- Smart contracts to help insurance companies avoid fraud and automate compliance procedures
- Cloud-based Integration as a Service (IaaS) to connect existing architectures with advanced technologies without being forbiddingly expensive

Close to 69% of banks have begun to experiment with permissioned blockchains<sup>10</sup>. Insurance players are keen to follow suit.

The blockchain industry is expected to be valued at \$60 billion by 2020<sup>11</sup> and is expected to reduce bank infrastructure costs<sup>12</sup> by 30%

## INSIGHT-DRIVEN UNDERWRITING DECISIONS

One of the most critical functions of any insurance entity is to measure risk exposure accurately, and determining a premium that works for both the insurer and the buyer. Performance of individual underwriters needs to be constantly measured and managed, and to do so objectively, technology comes to rescue. Insurance providers can seek the help of data analytics vendors, who are specialized in predictive and descriptive analytics. SaaS models deliver reporting, descriptive and predictive analytics and prescriptive suggestions as well. Wipro's Underwriting Analytics<sup>13</sup> is a good example.



## A Growth In 3rd Party Underwriting Solutions

Third-party underwriting and claims-processing solutions will grow phenomenally. Outsourcing underwriting analysis eliminates delays in policy issuance, resolves complaints quickly, and leads to higher customer satisfaction. Insight-driven underwriting will help insurance companies to avoid risks, process claims quickly, and enhance customer satisfaction<sup>14</sup>.

### Specific advantages of an insight-driven model:

- Vendor software can analyze social media posts to automatically assess specific risk parameters, aiding in a more accurate underwriting process
- Descriptive analytics will be used to determine patterns and identify information at the case level, helping settle claims quickly
- Predictive analytics tools specifically developed for underwriting and claims queries ensure quick and accurate processing of these critical functions.
- Prescriptive analytics predicts future risk of policies and suggests remedies to avoid and mitigate such risks, possibly identifying fraudulent claims.

76% of insurers felt that the strength of the ecosystems and partners determine their competitive advantage, more than their own internal processes.

25% of insurers expect sales to terminate digitally. They expect this journey to start online, and end online.

# INTERNET OF THINGS HAS BEGUN TO CHANGE CLAIMS PROCESSING

Insurers have begun to use sensor-based technology to provide usage-based policies. They often combine this with giving risk prevention advice to the insured. In particular, sensors can

help provide predictive maintenance support in place of reactive support, reducing the number of claims made due to faulty functioning within the warranty period.

In addition, sensors help observe customer behavior and determine premiums based on their lifestyle. Such data was previously inaccessible, resulting in inaccurate premiums being fixed. Insurers often team up with IoT solutions providers to integrate sensors into their policy programs.

## How Vendors Are Helping Insurers Implement IoT

Product liability insurance and product maintenance policies are particularly suited for sensor-based outsourced models. External vendors currently help implement and manage IoT-based hardware and software to help insurance providers mitigate risks and bring better customer experience. In addition, sensors eliminate fraudulent claims and make processing of claims transparent.

Specifically, these are some ways in which vendors help insurers:

- Implement and manage usage-based insurance services<sup>15</sup>
- Prevent and predict risk by using data analytics services
- Implement proactive service and maintenance, resulting in cost mitigation
- Process claims quickly in a transparent and seamless manner

Progressive is a US-based car insurer<sup>16</sup> that relies on sensors placed in vehicles to gauge how the policyholders drive and determine premiums based on their driving. With close to 1.7 trillion driver observations so far, Progressive also has valuable data to derive rich insights from.

Liberty Mutual teamed up with Google Nest to alert customers<sup>16</sup> when there is smoke in the house, by connected smoke-detecting Split-Spectrum sensors to smart home devices. Liberty sends Nests for free and gives a discount of 5 percent on insurance premiums as an incentive.

# A RISING TIDE OF ROBOTIC PROCESS AUTOMATION

Traditional software integration requires linking isolated systems to achieve automation and streamline business processes. Robotic Process Automation (RPA) does not alter the insurer's IT infrastructure<sup>17</sup>, and instead, places itself above the architecture. This helps insurers to implement RPA quickly, and achieve automation quickly. RPAs mimic human employees and handle end-to-end processes without the need for human intervention.

Insurers can also choose to program RPAs to manage only rule-based processes while retaining only certain processes for human operators. RPA is a growing field within the insurance industry, and makes use of artificial intelligence, robotics, and business process management software.

## How Rpa Vendors Are Helping Insurers

External vendors deliver RPAs via a SaaS model, and can help in both implementation and management. Outsourced RPAs can automate non-core tasks and insurance providers can implement it incrementally. You can expect RPA to pay for itself between six and nine months.

- RPAs are delivered via a SaaS model without making changes to existing IT infrastructure
- Vendors can help during both implementation and management stages
- To begin with, insurance providers can automate less critical work-flow processes
- It is possible to integrate RPAs with other processes at a deeper level

RPA's ROI tends to be as high as six to one, and can be implemented via a piecemeal approach.

By 2020, the worth of Robotic Process Automation market<sup>18</sup> is expected to be close to \$4.9 billion.

# CUSTOMER EXPERIENCE IS MORE IMPORTANT THAN OTHER FEATURES

In volume-based businesses like health and auto insurances, contact centers are losing their charm among customers. The gradual decline of the broker-based sales process has also resulted in more direct interactions between insurance providers and customers. The key to delivering optimal customer experience lies in bringing a buying experience that is competitive and intuitive.

This implies front-end design and online self-service features are crucial to enhancing customer experience. In addition, insurance providers are already being judged for the post-sales support they provide to customers. These are processes that are best left to vendors who offer a flexible cost structure.

## What Vendors Do To Enhance The Customer Experience?

Vendors can help insurance companies develop intuitive interfaces on which customers can begin, sustain, and end their buying journey. Vendors can also help enhance customer support by providing both automated and human-based customer support in their offerings.

- Build and implement intuitive interfaces with self-service options
- Manage both core and non-core customer care activities via automated and human-centered processes
- Enhance customer experience by personalizing social communications
- Use data and rich insights to understand each policy buyer better

Geico made the step<sup>19</sup> from offering a standard insurance mobile app to delivering 24/7 customer service via its AI-enabled virtual assistant, Kate.

Next Insurance removed middlemen by automating policy and claims process<sup>19</sup>, resulting in enhanced communication with customers.

# EVIDENCE-BASED INVESTMENT IN TECHNOLOGY

The most important trend in the insurance industry is a shift towards evidence-based investment in technology. To make this shift, it is necessary for insurers to seek specific and specialized advice regarding the choice of technology. Wasteful expenditure on technology is one of the biggest worries among CEOs of insurance companies<sup>20</sup>. While AI, machine learning, blockchain, etc. are all evidence-based technologies that have proven their mettle, it is important to consult vendors who can customize solutions for specific and individual business requirements.

## How A Partnership Will Help

Vendors who specialize in insurance-related services and products have begun to focus on platform-based models and sharing ecosystems. This has helped both small and medium insurance providers to reach markets that were previously inaccessible. Ecosystems and platforms that encourage evidence-based investment will find market appeal.

- Customized advice for making the right investment in technology
- A focus on platform-based models that fetch results
- Sharing ecosystems to reduce costs and make technology more accessible
- Evidence-based approach all along the way, to mitigate financial risks

94% of insurance executives feel that engaging in ecosystems with digital partners and implementing a platform-based model is critical for business survival<sup>21</sup>.

Two years from now, 60% of management decisions among insurance players will depend on Big Data<sup>21</sup>

# KEY TAKEAWAYS FOR INSURERS

Insurers find it difficult to cope with the advancements in technology, and the resulting market changes. While there are plenty of vendors who might help insurance companies adopt and implement cutting-edge technologies, one cannot be sure of complying with regulations. It is important for insurers to partner with vendors who specifically develop programs and platforms with regulatory bodies in mind.

In the coming years, insurers will increasingly depend on external vendors to

- Adopt and implement digital strategy and hire talent
- Choose a customized package of compliant technologies and protect customer data and ensure privacy
- Acquire Market Intelligence and make insight-driven underwriting decisions
- Implement seamless business processes and enhance customer experience
- Use sensors to mitigate risks, blockchain to prevent fraud, and automate with the help of RPAs
- Invest in evidence-based technology and seek advice

To understand how we can help you implement cutting-edge technology while ensuring compliance with regulatory bodies, **Contact Us Today.**

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