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Insurance 2021 & Beyond: Automated, Connected, Human

A white paper featuring global insights from insurance carrier Allianz, professional services firm Aon, and digital intelligence company ABBYY

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Introduction

There is an old insurance adage that goes 'you want to be the company that is easiest to do business with'. Not much has changed, and yet everything has. Ultimately, insurance – a contract of reimbursement for risk – is as important today as it was 250 years ago. Frank Sapio, Senior Vice President, Regional Head of Claims at Allianz Global Corporate & Specialty, puts it like this: "Nothing happens without insurance. It is the lubrication, which makes the machinery of the world run."

What has changed, however, are the delivery platforms and customers who expect to buy insurance as fast as they can hail a ride-share. Large industry players like Allianz were stepping up their IT investment games by either launching their own venture capital arms, acquiring promising InsurTechs, or partnering with academic institutions to attract the best talent.

While nearly half of all insurers, according to a Deloitte study, admit to being unprepared for the pandemic, those further into the digital journey fared better. Others, particularly those with still largely paper-based processes, struggled to communicate with colleagues and clients. Even so, that did not stop investors from piling into the global InsurTech market, which reached record funding levels of $7.5 billion in 2020 amid a flurry of mergers and acquisitions.

At this key inflection point for the industry, Aon's Adam Ellis, Chief Operating Officer, Claims, believes insurers can take heart. "They have the history, customers and knowledge as well as the capital to invest where they need to. With new technologies like low code, it doesn't take as long to get impactful projects up and running as myth would have it," he says.

Industry veteran Eileen Potter, Solutions Leader, Insurance, at digital intelligence company ABBYY, has this advice. "Look at your legacy systems as an asset – especially your data, and prioritize what to automate."

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> **With new technologies like low code, it doesn't take as long to get impactful projects up and running as myth would have it**
>
> **ADAM ELLIS**
> **Chief Operating Officer, Claims, Aon**

The rise of automation and the march of AI

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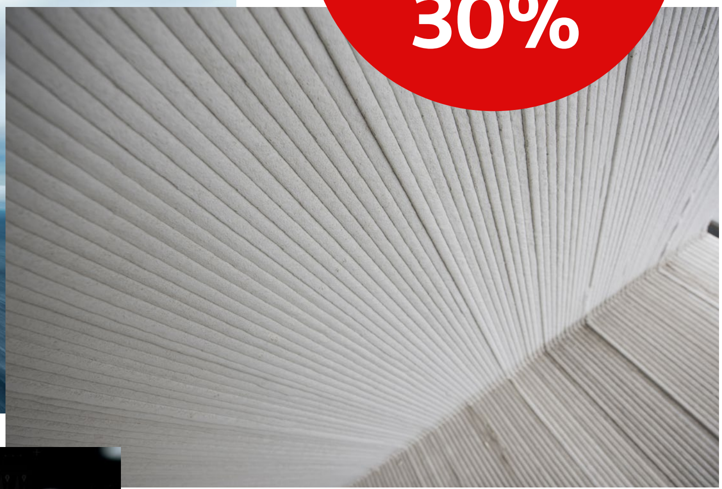

Half of all claims processing will be automated by 2030, with savings of up to **30%**

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The robotic automation of simple and mundane tasks, everything from onboarding to underwriting, claims processing and administration, is already underway across all lines of business. However, it is advanced Artificial Intelligence (AI), says McKinsey's Insurance 2030 report, that will be leading the industry from its current state of "detect and repair" to "predict and prevent". This shift will be driven by data from an estimated one trillion connected consumer devices, 3D-printed buildings to assess new risks, networked drones that capture real-time data during a power outage, and more.

McKinsey also forecasts that half of all claims processing will be automated, yielding savings of up to 30%. While cost efficiencies of 11% to 20% may be a priority for nearly two-thirds of respondents to a Deloitte survey, it's not the only one. "Reducing the life cycle of a claim plays a big role in client satisfaction. The claims arena can be sensitive, relationships can be hurt, but speed, certainty and clarity all help," says Aon's Ellis.

At Aon, the aim is to be as low-touch as possible on the first two functions – reporting/first notice of loss and claims administration – without negatively impacting client outcomes. This frees claims professionals for more "hands-on advocacy", says Ellis.

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Integration and interconnectivity

As a global organization, with 1,500 claims professionals across more than 60 countries, and relationships across the insurance value chain, Aon's view is through a wide lens. What you see, says Ellis, is a broker, a carrier, an adjusting firm, potentially a law firm and others, all entering the same data.

"If this could be reduced to just one entry, not only would it help to drive the single version of the truth on a claim but also greater integration and interconnectivity between Aon's own systems and the wider market," he says.

API (application programming interface) integration is an essential driver of connectivity, both internally and externally at Aon, but Ellis is pragmatic. "None of us in a large organization think that we will ever have one system that does everything. But we need to be as efficient as possible," he says.

Aon continues to focus on technology enhancements and is moving towards a strategic delivery model to improve processes and client engagement. "We need to make experts available that sit in London, for example, but service clients in Brazil who have placed with insurers in Germany, and for that you need technology that can integrate and can operate globally. That is one of our areas of focus," he says.

At Allianz, says Sapio, "the Holy Grail is get to a single system and reap the benefits of lower operating costs and increased flexibility and efficiency." For this there is a systematic two-pronged approach: a master business platform defines how to go to market in a customer-centric end-to-end way, while a master IT plan, directs how to arrive there digitally.

The power of process

In McKinsey's crystal ball is "a new wave of deep learning techniques, such as convolutional neural networks" that will enable AI-agents to live up to the promise of mimicking human perception and reasoning.

While straight through processing may work for auto claims, insurance is a complex business and Sapio still believes that "your most valuable tool is the well-trained claims professional".

Getting to the essence of the business, he adds: "We must pay the appropriate amount as quickly as possible. We must set accurate reserves. And we must avoid surprising the customer or the organization by failing to do either one of those." He is quick to add: "You can't be responsive if your underwriter lacks real-time data to match the claim".

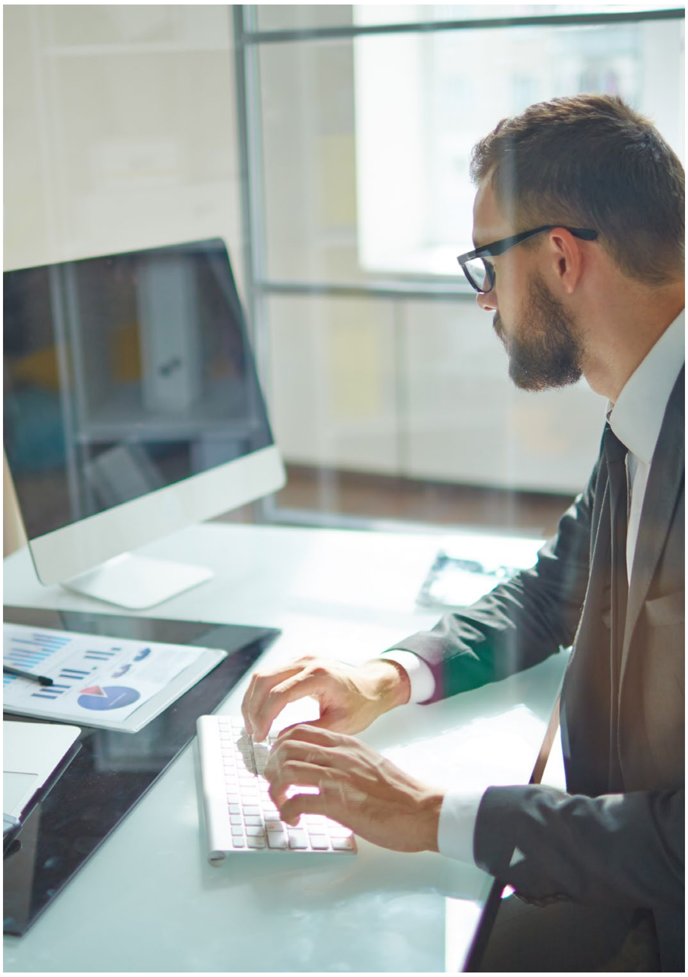
Ellis sees it like this: "Technology is only as good as the process and the people that are managing that process. When you implement a technology, if you don't have those two pillars right, then technology just amplifies the issues that you have."

> ## Your most valuable tool is the well-trained claims professional
>
> **FRANK SAPIO**

Potter agrees that everything starts with understanding processes but whether the worker is human or digital, she believes "content can and must be an active stream of critical information that fuels processes without intervention".

With the shifts underway, a McKinsey study of talent models finds that 10% to 55% of current roles in insurance could be automated by 2030. Demand for technological skills is expected to increase by 55%, while basic cognitive skills, such as data input and processing, will decline by 15%. What people do will change too, with underwriters, for example, working more closely with data scientists. The ultimate candidate will be tech savvy and have outstanding social and emotional skills to handle the really tough claims.

The race is on to recruit and train the talent needed, and at Allianz they are targeting a variety of places, including colleges and the military. However, for an industry that has struggled to attract new talent, Sapio believes repositioning is key. "Insurance," he says, "gives you a backstage pass to the world."



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BY 2030

10%-55%
current roles could be automated

55%
expected increase in need for tech skills

15%
decline expected in basic cognitive skills

From big-bang project to incremental journey

Setting priorities is a challenge. Typically, technology projects were mapped out over three to five years but this may no longer be the right approach. Says Sapio: "You don't want to pour money and time into a project that will be obsolete before it gets fully implemented." Equally, solving current challenges without thinking about the future is also problematic.

Low-code or no-code platforms, which Gartner forecasts will account for 65% of all app development by 2024, are one solution. "This way we can solve specific issues, being the priorities for our clients, rather than going for a large-scale transformation for the sake of it. In a way, we are driving forward with evolution, not revolution," Ellis says.

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> **EILEEN POTTER**
> **Solutions Leader, Insurance, ABBYY**

An incremental approach and checking in regularly to see if solutions are working allows carriers to better manage costs and resources which can quickly spiral out of control in IT transformation projects.

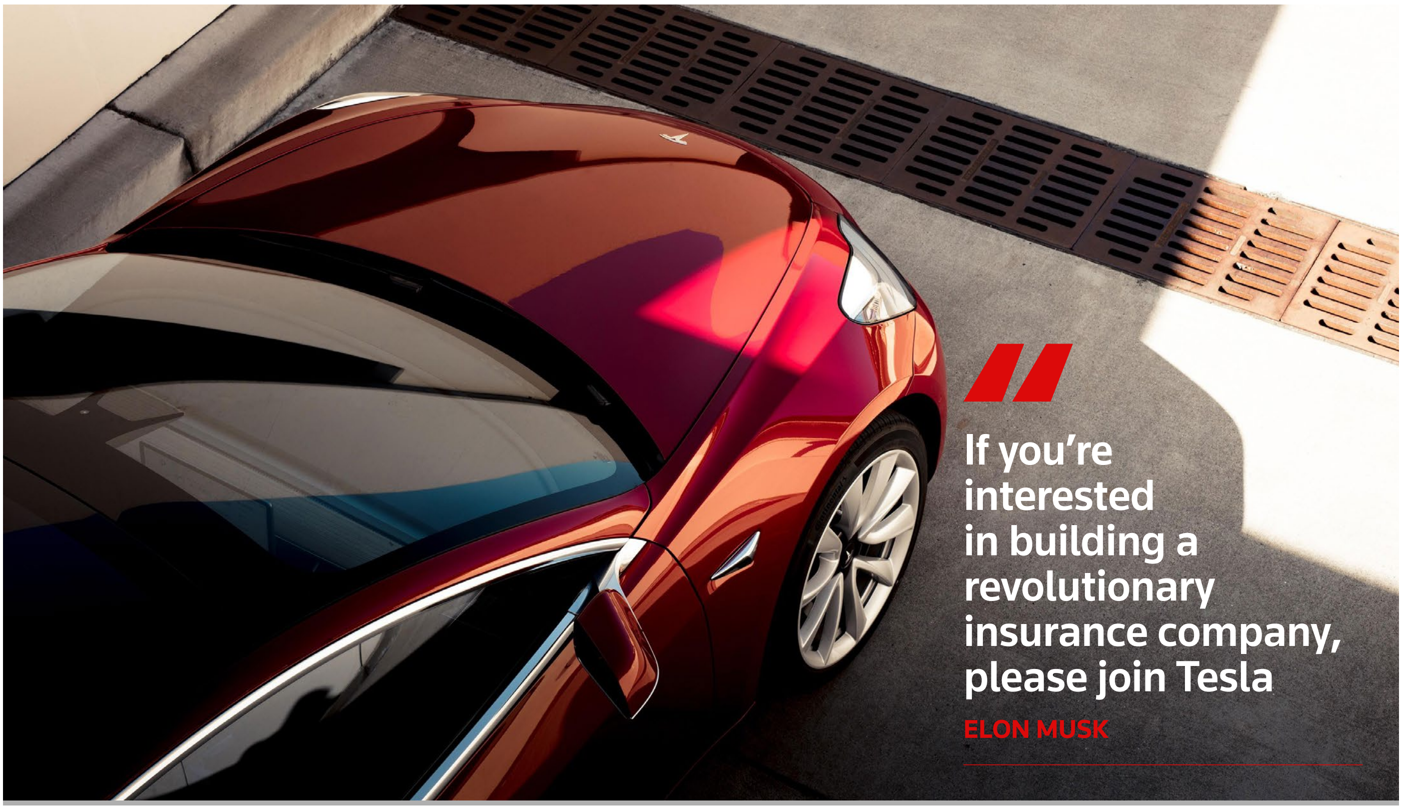
As Potter states: "Part of this new reality is that things will always be changing. Successful organizations will need to be open to that, to see this as an ongoing process."

However, compliance and a strong audit trail will be vital, as the future of work continues to evolve and with it, the arrival of new regulations and potential for data breaches.

5 ways to rethink content and streamline processes

How carriers identify, quantify, place and manage risk is all built on the volume and quality of data they acquire during a policy's life cycle, says McKinsey. But datasets are growing exponentially and, with 80% of enterprise data estimated to be unstructured, the pressure is on to extract the intelligence needed for profitable decisions. "Insurers are having a hard time priortizing. They know they need to act fast, but they don't know what to do first," says Potter:

1. Start with issues exposed by Covid-19. This is the low-hanging fruit. During the pandemic, many carriers, for example, were without a virtual mailroom and found that employees could not access information for effective communication.
2. Identify mundane paper-based processes. Essential documents used in onboarding, policy underwriting, claims, adjudication and compliance can be streamlined with technologies like robotic process automation.
3. Understand your content and where the bottlenecks are. Not in an anecdotal way, but in a data-driven way.
4. Make data, information and business intelligence accessible. Your workforce – human or digital – doesn't need data locked in a data warehouse but rather available at every point in the customer journey. Having the right information can impact profitability. Get it wrong and you can lose a customer or write a poor piece of business.
5. Ensure people, processes and content can interact in a streamlined way. Think about the shortfalls of your processes before making a technology decision. Don't just convert a manual process to digital.



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Competition, innovation and opportunity

Digital technologies, changing customer behavior and new types of risk continue to evolve the way insurance is distributed. But many insurers are still falling short of delivering the affordable, personalized products that the market is demanding.

Meanwhile, InsurTech companies, like Flock and Wrisk in the UK and Oscar and Hippo in the US, are improving risk management and delivering customized solutions with powerful and predictive data analytics. Others like Metromile are promising to "revolutionize car ownership to fit your urban lifestyle". These companies are best positioned to meet the needs of 24 to 35-year-olds, the most coveted demographic for insurance companies.

A new disruptor is also emerging, the estimated trillion-dollar market for embedded insurance. This will allow any third-party product or service provider to integrate a solution into their customer experience. Going beyond today's affinity and partner distribution models, this trend is being driven by APIs, AI, modular software design and new innovative intermediaries. As Tesla's Elon Musk told listeners in a recent earnings call: "If you're interested in building a revolutionary insurance company, please join Tesla."

Ping An, Asian digital powerhouse and the world's second largest insurer, an early adopter of AI, blockchain and cloud, is now embedding insurance into its Good Doctor platform. It sought approval from the Chinese government, and today there are 400 official 'internet hospitals' to conduct virtual consultations.

Gartner estimates that the blockchain opportunity will ramp up by 2023, and deliver $3.1 trillion in new business value by 2030. Swiss InsurTech Etherisc is one entity building decentralized insurance applications to improve efficiencies and lower operational costs, in particular for claims processing. It's also targeting fraud by creating a mechanism for verification and fairer, faster payouts.

Adding digital capabilities to new expectations is spurring a raft of new deals, according to Consultants EY. As one example, broking company Brown & Brown acquired CoverHound, a digital insurance marketplace for individuals and small businesses, giving it access to a growing online origination niche and boosting fee income.

"In general, insurers are not IT people," admits Sapio, and his advice for those that don't have the luxury of an entrepreneurial in-house team that operates like an InsurTech, is "to utilize the resources available out there in the market place".

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Conclusion

The pandemic may have exposed inefficiencies and accelerated digitization, but it also underscored the industry's resilience. The landscape is, however, more competitive than ever and there are risks, opportunities and responsibilities. For one, closing the combined insurance protection gap for mortality, health and natural disaster risks, estimated by Swiss Re AG to have reached a new high of $1.24 trillion in 2020.

In short, insurance companies must understand their processes and automate where it makes sense. They must be process and data-driven, fast, efficient and accurate. Flexibility, continuous adaptability and a willingness to collaborate will be key. Above all, they must be customer-centric. Get this right and they can ride the rising wave of innovation with happy customers.