TRUSTMARQUE

The Future of Insurance

Embracing technology to become a modern insurer

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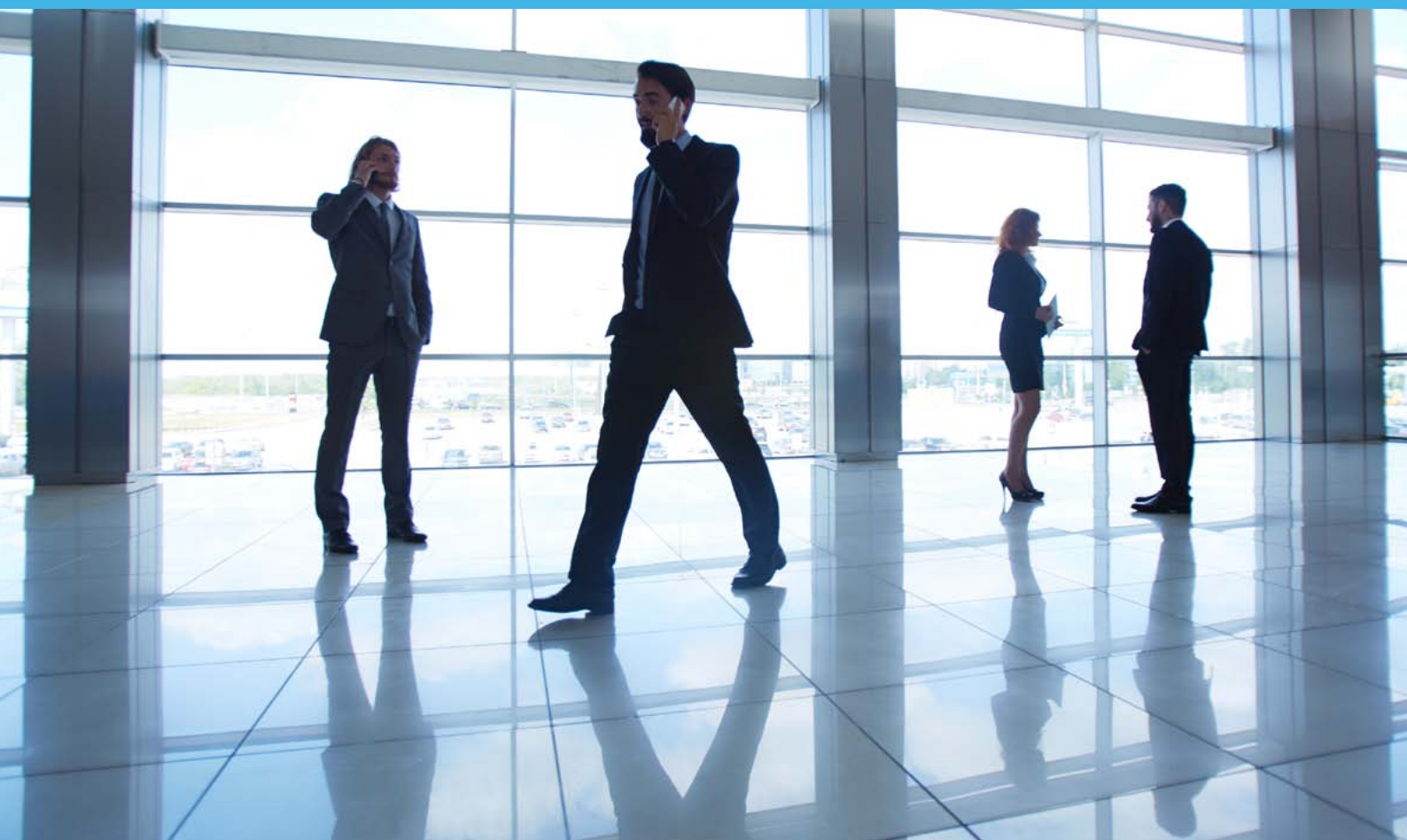

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Introduction

The insurance market is in a state of flux which is revolutionising how it operates. A number of external factors are impacting the industry, changing its direction and significantly altering expectations. From technology to socioeconomic to demographic trends, this state of flux will remain, and with it the insurance industry is poised to transform.

The insurance sector is no longer a world of local products and services designed to serve customers and businesses that are located nearby. The rise of economic and political power in emerging markets, such as Africa and Asia, is squeezing domestic insurance markets. While there is opportunity for insurers to expand into emerging regions, the challenge for the London market, which includes the Lloyd's of London Group, is clear. In 2013, the London Market's share of business in emerging markets declined by over 20% compared to its share in 2010 ('London Matters', London Market Group, 2014). Competition is strong, and insurers unable to differentiate themselves in both domestic and international markets will fall behind.

Other global factors must also be considered in these testing times for insurers. The impact of climate and environmental change, for example, is a worldwide challenge which has the potential to overwhelm insurers. Indeed, over the past 20 years, the severity and frequency of catastrophic events, both natural and man-made, have increased. These events both reduce capacity and raise prices, and see insurers paying out claims in large numbers. Those insurers without the sophistication to enable better data and risk modelling will be unable to respond to this trend or underwrite accurately.

Demographic factors are also powering change. On one hand a wealthier, retired generation is driving the creation of more pension or retirement related products. On the other hand, the influence of a millennial generation largely concerned with achieving the lowest premium is forcing insurers to create cheaper products. In addition, customers are far less brand-loyal than in previous years, forcing insurers to compete even more closely for a customers' business. In part due to these demographic changes, the balance of power is shifting to customers themselves; the explosion of price-comparison websites, for example, is testament to this power-shift. Online, social and mobile technology is continuing to fuel changes in customer expectations as they demand greater simplicity, transparency and speed in their interactions with insurers.

The UK insurance industry is currently the third largest in the world (ABI Key Facts, 2014), but taken together, these macro trends mean that changes are happening fast. Insurers must be prepared for the impact of change by becoming far more agile and responsive; technology strategies that can satisfy the needs of the business and its customers will be key.

Heightened competition from global operations

Competition from innovative global businesses is disrupting every sector of the insurance market, and some sections of the industry have been slower to respond. Typically, this includes insurers with a more traditional approach; for example, many of those brokers and underwriters operating in the Lloyd's market. Therefore, those businesses that are unable to compete effectively with newer organisations that are more tech-savvy are at risk of falling behind.

The London insurance market consists of more than 65 Company Market insurers and reinsurers, 91 Lloyd's syndicates managed by 56 managing agents, eight P&I clubs and over 200 brokers. The competitive position of the market has historically been strong, representing 10% of the UK Financial Services industry's revenue and contributing approximately £12bn to the GDP of the UK ('London Matters', London Market Group, 2014). But the increase in the number of global insurance companies that are more technically able is challenging older insurance infrastructures.

Many global insurance companies are operating as nimble IT companies that sell insurance, and therefore are streets ahead in their use of technology. These companies are embracing modern technology with both hands, balancing out the legacy technology that exists in the organisation and progressing to the implementation of high-end enterprise applications. These companies have already got to grips with trends such as mobility and big data, and are using analytics to better understand how both business-to-business and consumer customers choose insurance services.

This approach, which focuses heavily on improving IT capability, means those organisations are far more agile and flexible, and so are better able to respond to changing demands by developing new products and services. With superior access to global data, they are also able to broker deals in a much shorter timescale. The application of technology makes the development supply chain shorter, enabling these insurers to go to market with new services much more quickly and efficiently than, for example, those insurers still grappling with delivering a mobile platform.

To meet the challenges of competitors that live and breathe a technology-first mantra, smaller syndicate insurers and those operating in markets such as Lloyds must begin the transformation to a modern IT infrastructure. In doing so, they will be better positioned to compete not only within their own markets, but on a truly global scale.

The challenges for IT in a highly regulated industry

The insurance industry is one of the most highly regulated, which poses an enormous challenge to CIOs and IT departments. They must balance the need to usher in transformation, while simultaneously meeting regulatory demands that are constantly changing. As a result, IT departments often feel hamstrung by regulations and struggle to understand what they can or can't do when it comes to new technology. In some instances, feeling restricted by regulatory pressures has resulted in the door being closed to pursuing technology projects or supporting initiatives such as Bring Your Own Device.

One such area, which causes considerable issues when it comes to regulation, is cloud computing. It is generally accepted that cloud will enable insurers to become more efficient and agile, but the regulatory rules result in confusion. IT departments are not clear on what data, for example, can be stored in the cloud or what uses of cloud are acceptable, and so attempt to restrict it all together. This causes further issues as the majority of employees in other departments, who are far more accepting of cloud, are already using cloud applications (e.g. Dropbox, Gmail, Facebook) at work and will circumvent IT policies to do so. Indeed, research suggests that the average business based in Europe, Middle East and Africa (EMEA) has over 500 insecure cloud apps running at any given time (Netskope EMEA Cloud Report, 2015).

Adding yet more pressure to satisfying regulatory demands is the fact that software and technology vendors are pushing customers towards using Software-as-a-Service (SaaS) versions of their products. This leaves many insurers in one of two positions. Either they are stuck with unwieldy legacy technology that they can no longer support and maintain, and will find themselves in contravention of regulations as a result. Or, driven by vendors' insistence on cloud, companies will hurriedly complete cloud migrations without understanding the full picture, and in doing so may be unwittingly breaking rules.

Cloud can underpin much of a modern insurer's IT infrastructure, supporting better mobile device management and compliant data sovereignty strategies. Yet getting it wrong can be a costly mistake. To achieve a modern IT infrastructure that satisfies regulatory demands, insurers must act now. With a proactive, knowledgeable approach, IT departments have the opportunity to bring about the changes that employees are demanding, while ensuring they meet regulatory demands.

The burden of compliance

Conforming to the many policies, standards and laws that govern the insurance industry results in a weighty compliance burden. For IT departments the burden is especially hard to bear as they must continually keep rolling out and implementing fixes, for example creating new reporting capabilities, in order to meet constantly evolving legislation. From file monitoring, to Sarbanes-Oxley, to ORSA, to preparing for audits from the Financial Conduct Authority (FCA), the compliance checklist can seem never-ending for insurers.

This year in particular is pivotal for the insurance industry, as it prepares for the incoming Solvency II regulations that will come into force on January 1st 2016 across all 28 EU Member States. Solvency II replaces 14 existing EU insurance directives with a new, harmonised EU-wide insurance regulatory regime. These new regulations will cause significant upheaval, adding further to the compliance burden; not just as companies plan for its initial introduction, but also throughout the subsequent years as it is implemented. Solvency II encompasses a three-pillared approach, made up of a qualitative basis; a quantitative basis; and enhanced reporting and disclosure.

Because Solvency II requires transparent, open and real-time data to be communicated, it is a task in which IT departments will have an integral role. It requires more data than any other regulation to be located, categorised and cleansed to enable the correct filing of regulatory reports. This represents a challenge, as typically many insurers' administrative platforms are not able to capture and validate the data needed to prove compliance. As a result, many insurers are currently failing to meet their reporting requirements as their systems and data access are not advanced enough.

Making sense of data and engaging increasingly disloyal customers

Consumer power is growing rapidly in the insurance industry, thanks to the increasing influence of social networking, coupled with changes in demographics which are modernising patterns of traditional business relationships. The old adage that 'insurance is sold, not bought' will no longer hold true, as insurance products and services will be bought with increasing frequency by customers directly, rather than through brokers or agents.

For many insurance companies, engaging with customers who are increasingly disloyal and are driven by achieving low prices presents huge difficulty. The benefits of being able to interrogate and draw actionable conclusions from mass amounts of data are numerous for insurers, but many are currently struggling to use technology to connect with customers. Companies are unable to make use of the large amounts of 'big data' they gain from customer interactions, and are struggling to differentiate themselves from the competition as a result.

By interpreting customer and trend data, insurers can more accurately assess risk and build improved catastrophe models that will inform premium setting and cushion the business against abnormal losses. Through gathering real-time data, insurers can also better communicate with customers when events are occurring. For example, an insurer could text all of its customers based in a particular location as soon as the first social media posts detailing news of a flood in that location emerge. Finally, more efficient data management and analysis helps insurers to know their customers better. This will allow them to overcome the problem of differentiation by creating new, personalised products and services that are tailored to individual customer profiles.

A handful of innovative insurers have made great leaps when it comes to using social media, user-generated data and real-time information. But many more, particularly those insurers based in more traditional operational set-ups, are finding themselves hampered by current IT infrastructure that lacks the power to draw correlations between disparate data sources.

There is, however, a sizable opportunity that exists for companies and IT departments who can buck this trend to compete with the early adopters. Embracing big data will support insurers in reinventing themselves from a tactical, reactive business to one which is strategic, proactive and better able to serve increasingly disloyal customers.

Technology challenges

The landscape of technology continues to change rapidly, impacting businesses in ways that will power profound transformation. Insurance companies risk ignoring technology at their peril; unable to adapt and thrive in this new environment, they will swiftly fall behind the competition and hasten their demise. Companies will need to overhaul business processes and adopt a modern IT infrastructure that will make them more efficient, cost-effective and agile. For the insurance industry to make this leap, it needs to embrace technology.

In light of the many challenges that the industry faces, there is arguably much to be done to achieve this aim. The core tenet that insurers must adhere to, is not to be daunted by this challenge – technology can supply the answer. Customers and employees are demanding speed, scale and agility, and technologies such as cloud computing are able to provide the responsive, streamlined platforms insurance companies need to respond to the challenges they face. Embracing technology solutions will help companies complete the journey to becoming a modern insurer.

Proliferation of legacy technology

The insurance industry is littered with dated assets that are hindering development and innovation. In some instances for example, insurers are continuing to run disparate 40-year-old policy administration systems designed to manage the claims process. Not only does this hold employees back from being effective and productive, it is a sure-fire way of losing customers who quickly tire of lengthy, onerous claims processes.

CIOs and IT departments must strive to create an environment that will support the business focusing on future innovations, rather than simply ‘keeping the lights on’. Often, this involves both a move away from legacy technology, and also from legacy thinking. The time to shed the legacy technology and embrace new ways of working is now. To enhance the capabilities of business processes and their underlying systems, insurers must adopt new technology that will replace existing core systems and help usher in greater business agility.

The scale of an insurance company’s operation can make the replacement of legacy technology appear a formidable prospect. But with expert advice, insurers can avoid the mistake of ‘rip it up and start again’, and take the more viable option of modernising legacy systems in stages. The adoption of cloud-based systems, as part of an overall legacy modernisation strategy, is a useful first step and can be used as a way to increase business agility across the board.

Document-centric approach hampering progress

Typically, the insurance sector has relied on paper-based documents to complete many of its processes, both internally and customer facing. This could range from a customer 'change of details' request to submitting paper documentation in support of a claim. First and foremost, this document-centric nature is harming the customer experience. Modern customers want to be able to use online and digital platforms, in particular demanding more mobile options when interacting with their insurers to submit or track a claim, for example.

Too much internally generated documentation is a burden, leading to inefficiencies when managing documents and records, and when entering them into a centralised system. IT departments must enable the move from a document-centric to a customer-centric approach. Customer centricity ensures that insurers are focused on creating the most optimal customer experience possible, and maximises the ability to gather customer information at every touch point. By automating the gathering of this data, insurers can guarantee they have access to up to date customer information, allowing them to more accurately recommend products and services, set appropriate premiums and improve the customer experience.

Putting in place systems to reduce the amount of documentation by automating processes, and that also support mobile and online platforms, has another significant benefit. The by-product of having a 'living' system is that the data it holds is more accurate and is real-time; meaning it can be better used to carry out operational and tactical decisions on customer targets, to set premiums, and for assessing risk. This is important because it allows insurers to carry out long-term planning and modelling with confidence in the quality and timeliness of the data they are using.

The next decade is certain to see an even greater shift away from the use of documentation, as the digital transformation of the insurance industry continues and customer and employee expectations continue to grow. For example, data from social networks, sophisticated artificial intelligence systems and through online customer channels (e.g. websites, self-service portals) will continue to proliferate. Insurers and their IT departments must act now to ensure they are able to proactively manage the customer experience, more easily up- and cross-sell, and establish a significant competitive advantage.

Core systems incapable of using data

The fundamental factor in achieving customer-centricity and realising the benefits that approach brings, is creating core systems that are capable of gathering, archiving and analysing data. For many insurers, burdened as they are by legacy technologies, this is not currently possible. Instead, IT departments are supporting core systems that were never designed to handle vast contemporary data volumes or modern analytics solutions. Ultimately, this means that data is not available to be utilised in the underwriting decision-making process, for new product and service development, or to improve customer service processes.

The benefits of transforming the IT infrastructure to one that is capable of handling large and ever-growing data sets are many. By consolidating data to achieve a single view of the customer, sales and marketing activity can be better targeted and tailored, improving the success of campaigns. Product and service suggestions can be made based on the demographics, behavioural and historical data of customers – increasing new business sales and profitability. Taken together, these factors will hugely improve service to customers, delivering a personalised approach that gives customers the products they want.

To become a modern insurance company, CIOs and IT departments must ensure that they are providing a solid foundation that will underpin the more intelligent use of analytics and data. First, they need to be certain that robust systems are in place that are able to pull data from multiple sources, and that ease of access to data is facilitated. This is not only important from the perspective of sales and customer services, but also in making data easily retrievable and reported in order to meet regulatory frameworks.

Latency heavy data warehousing

To achieve the benefits that are referenced in the previous section, there is a second factor to consider, which specifically involves overhauling current warehouse structures. Many insurers currently have data warehouse structures that do not support business agility or the adoption of modern technologies; for example, the extensive use of proprietary relational databases that many insurers employ. These issues with data warehousing are causing significant problems of latency across networks.

IT departments must now help the business make the shift to an IT architecture that can manage growing volumes of big data. By employing a big data architecture, CIOs will ensure the business can adopt big data technologies that deliver far greater speed and scale, and reduce latency. By supporting better data warehousing and ridding the network of heavy latency, insurers can then be more confident that the data underpinning business decision making and needed for regulatory reporting is accurate and up to date.

In laying the foundations for a big data architecture, insurance CIOs will further ensure the business is prepared for the influx of data that is set to come from the Internet of Things and the rise in the use of wearable technologies. This is where the next wave of insurance products will come from. For example, the future will see individual health insurance policies determined according to data reported from a fitness application or a piece of wearable technology. Adopting a big data architecture is not just about delivering benefits now, but preparing for the future trends that will impact the insurance industry.

User-created models lead to inefficiencies

Often, user-created spreadsheet models, used in underwriting for example, are in heavy use throughout many insurance companies. Relying on these employee-created models creates several issues. First, many of these long-established models in use are 'owned' and managed by users who are ageing out of the system; which means that when the user departs the business, their knowledge departs with them. The risk is obvious; when problems or questions arise in the future, the know-how to fix that model is not there, rendering it useless.

Indeed, research found that a fifth of insurers currently using spreadsheet modelling stated that a qualified actuary would not be able to understand their model and would need to rebuild their spreadsheet in the event of their absence. Furthermore, less than a third of those personnel who 'owned' a spreadsheet model had supplied full and sufficient documentation for use (ClusterSeven and Actuarial Post survey, 2014).

Second, user-created models and spreadsheets rely on the quality and accuracy of data that is entered into them. Often, manually maintained spreadsheets are rife with error, the obvious consequence of which is that the models are not accurate and therefore of little use. Not only is this an issue in actuarial and underwriting work, but could mean that insurers are exposed when it comes to regulatory and compliance reporting. Thirdly, even when formal data warehousing projects are undertaken, spreadsheets and user-created models are not considered by IT staff to be formal 'systems'; as a result, the data is not included and may be lost.

The opportunity here for CIOs and IT departments is to start providing core systems that are able to support modelling without a reliance on the knowledge of one person. Underwriting data must be able to be managed and evaluated with far less manual input, reducing the potential for error. Automation is key here, reducing the time spent inputting and maintaining user-created models and ensuring accuracy. Introducing formal IT systems for modelling will ensure the process is more efficient, sustainable in the long run, and with a reduced margin for error.

Siloed systems and lack of collaboration

Underpinning the IT challenges that insurers face is the need to get to grips with overly complex and piecemeal IT environments that have been created. For traditional insurers, a common problem that results from this is that staff are operating in disparate, siloed systems with very little inter-departmental sharing of information. Many insurance firms are currently working with overlapping systems that have been created internally and do not interact. This impacts on end-users, often resulting in duplication of work and hampering their productivity. In an ever-changing IT environment, the imperative for CIOs is to adapt to a more demanding, technically literate workforce, and deliver collaboration solutions that support them in maximising efficiency.

To be considered a modern insurer, companies today must enable their employees to work from anywhere, anytime. The proliferation of mobile devices means workforces are demanding increased mobility and flexibility in their workloads and location. Added to this, advancements in virtual technologies, converged communications, faster connectivity and increased uptake of cloud platforms, opens up a wealth of opportunity allowing businesses to introduce new initiatives that remove siloed systems and increase worker collaboration.

Insurance CIOs and IT departments must seek to upgrade their current desktop infrastructure to meet the growing requirements of a more technical and mobile workforce. In the majority of cases, this will involve moving towards cloud-based services that support greater collaboration, cross-departmental communication and flexible working, regardless of the location that staff are working from. Whilst this may seem a major upheaval, it's essential for improving workforce productivity and empowering employees.

Best practice

Trustmarque has worked with the financial services and insurance market for over 25 years, including leading insurers based both within the London market and further afield. We recognise that a combination of external pressures and insurers' own traditional approaches are converging to place enormous amounts of pressure on IT leaders in the industry.

Trustmarque has extensive experience in supporting insurance CIOs and their IT teams in revolutionising their IT infrastructure and delivering benefits to the entire business. Now is the time for insurers to stop considering IT as a cost-drain, and start viewing it as a strategic asset that can help the business remain competitive and lay robust foundations for the impact of future trends.

We've put together the below best practice guidelines to help insurers tackle the challenges they face and re-architect their business to operate in this new landscape.

1. Align business and IT first

Transforming the business in order to become a modern insurer cannot take place without also transforming technology. CIOs and IT departments must therefore ensure that IT requirements are mapped to the needs of the business. To take the first steps to modernisation, companies should start by assessing their current position. This 'taking stock' enables insurers to first understand the state of their existing IT infrastructure and better identify where changes need to be made in order to support the business and the services that it wants to offer.

Carrying out this important assessment of the current position supports the creation of a feasible and achievable technology roadmap that supports the businesses along its journey. A technology roadmap will help ensure that businesses consider the long term needs of the organisation, as well as taking into account the future trends that will shape how the organisation interacts with its different stakeholders.

To successfully measure where the business is now and what it wants to achieve in the future, this step cannot be undertaken by IT in isolation. Other audiences, including customers, partners and staff, must be engaged across the entire business network. Should an IT department forge its own path without consulting other groups, they risk finding that similar projects to those they have planned are already underway – resulting in a lack of coordination and duplication of spend. Including all interested parties ensures that IT and the business are fully aligned and return on investment will be maximised.

2. Deliver mobile solutions that staff and customers want

As a younger, millennial workforce enters insurance companies at every staffing level, the demand for improved mobile working solutions is growing. Similarly, as customers become more tech-savvy and more comfortable with operating via online and mobile platforms, there is a need to offer contact options across all channels. Modern insurers must therefore equip both customers and staff with the mobility that they are demanding to improve interactions.

For staff, tailored mobile solutions allow them to be more productive both in and out of the office. IT departments must facilitate the use of mobile applications and devices that meet the needs of employees, and that empower them to be efficient whether in the office or on the road. Additionally, ensuring that mobility is supported and managed centrally will also reduce the risk of unsanctioned application and device use creeping into the corporate network.

For customers, choice is needed that allows them to communicate across whichever channel they choose, including via mobile apps and mobile websites. From the initial browsing for services, to buying insurance and submitting a claim, the entire process must be mobile-enabled. Supporting a modern IT infrastructure with tailored mobile solutions helps insurers to distinguish themselves from their competitors, and ensure they are providing the best possible customer service, regardless of channel.

3. Enable collaboration and information sharing

Working in the global industry of insurance, CIOs and IT departments find themselves needing to support multi-site, geographically spread workforces operating across several borders and time-zones. As a result, ensuring a truly modern communication infrastructure is in place that allows individuals to collaborate and cooperate, is vital.

To enable greater collaboration and cross-departmental information sharing, IT departments must look to employ enterprise solutions, for example Microsoft SharePoint, which can deliver the functionality for internal collaboration needed. By employing intranet solutions which can be customised, insurers can create a more consistent identity across offices and countries; and empower staff to work collaboratively and in partnership with one another, regardless of location.

In the long run, investing in platforms that deliver effective intranets and collaboration solutions pays dividends. Staff have better access to up to date information, can talk to colleagues across the globe, and are more productive as a result. Those companies that will successfully reinvent themselves into modern insurers will be the ones that understand better collaboration is an essential component of a successful business, rather than simply a bonus. Ultimately, facilitating an insurance organisation that works seamlessly across borders will create a collaborative culture that will contribute to bottom-line profitability.

4. Improve access to data

With watermark legislation such as the incoming Solvency II, coupled with already existing compliance demands, optimised data management and access is crucial to satisfying compliance and ensuring reporting accuracy. On the customer side, insurance companies must improve access to data to allow it to be used by underwriters to arrive at increasingly accurate prices for policyholders, as well as enhancing customer service.

Whether meeting the components of regulatory frameworks or improving data access to better serve customers, upgrading to a new modern technology infrastructure is fundamental to achieving these aims. Insurance sectors such as property, casualty, life and health insurance are among those that stand to benefit hugely from the potential of big data – where it can be used to drive evidence-based decision making that supports accuracy and profitability. Insurance companies can meet these goals by seeking tailored solutions to their requirements, from a company that understands their data challenges.

Trustmarque's long heritage in the insurance and financial services sector means that it can empower insurance organisations to cost-effectively capitalise on the power of big data, not only to ensure compliance with data-intensive regulations, but to create competitive advantage, boost customer retention and acquisition, to find operational efficiencies, and to improve claims operations.

5. Automate where possible

Automation has several benefits for insurers in a number of areas, including front, middle and back offices. It firstly decreases the amount of valuable time spent on previous document-intensive tasks (such as claims processing), shortening response times. Secondly, automation is a huge support when it comes to reporting on various data for compliance reasons, speeding the reporting time-line and reducing the risk of human error in the process.

Modern insurers should look to automate as many business processes as possible, freeing the time of staff to deal with other workloads and focus on customers. To do this, CIOs must involve the operational side of the business as well as IT, in order to ascertain which processes can be automated and the best way to do it. Employing Business Intelligence (BI) solutions can also support automated, accurate reporting. For example, the BI platform QlikView supports data gathering, analysis and reporting in a single platform, reducing the reporting burden significantly.

Further areas of an insurers businesses can benefit, such as automating the handling of customer enquiries and dealing with utility tasks such as address or personal detail changes. Automation of customer interactions allows also for a fast response and the ability to track interactions. Finally, it normalises how customers connect with a company, regardless of whether they are applying for a new policy or renewing an existing one, resulting in a consistent customer experience.

6. Embrace a modern, cloud-based infrastructure

Underpinning all of these best practice areas is one technology in particular – cloud computing. With cloud comes the ability to facilitate mobile working, collaboration, data managing and automation with far more ease. CIOs and Heads of IT in insurance companies must begin to modernise legacy IT infrastructures to a more cloud-based system. In doing so, they will ensure they have the ability to respond quickly to changes, and have the flexibility to scale solutions as needed.

The first stage when considering cloud is to understand and benchmark the technical requirements of the IT environment to assess the suitability of each workload for a move to cloud. Second, identify the cloud products that will support the business's move to cloud while maintaining network security, considering how prevalent enterprise platforms such as Microsoft 365 can deliver value. Third, CIOs must build a detailed plan which outlines what the expected benefits of cloud are, the predicted costs, and how these will be communicated to the wider business.

With the added complexity of compliance regulations, moving to the cloud can be a daunting task for insurers, and there is no one-size-fits-all cloud solution, given the specific requirements of individual businesses. With over 25 years' experience of working with major private and public sector organisations on their cloud projects, Trustmarque can help insurers make well-informed decisions on what workloads should be moved to cloud and when, minimising risk and ensuring that the desired benefits of cloud are realised.