

Where does it hurt?

Insurance is ripe for disruption, but what are the specific pain points that technology can address and can the industry learn from more digitally developed banking?

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There is no need to sugar coat it: Insurance is lagging banking in digital transformation. While around 38% of banks believe they have the necessary digital and leadership capabilities required for a digital transformation, only 30% of insurers believe the same thing, a Capgemini report found. Moreover, some leaders did not see the need for a restructure until a couple of months ago.



Tony Tarquini, Director of Insurance, EMEA, Pegasystems

Before the pandemic, Tony Tarquini, Director of Insurance, EMEA at Pegasystems explains, there were a lot of insurance leaders who simply did not understand what modern technology could do for their business and the importance of it. “They were, and some still are, in the mindset of renewing their existing software packages instead of leveraging a new platform that they could use to build for change that would never become outdated. When Covid-19 hit, insurers that were not using agile software realised they needed to change their processes in weeks, not months, but their existing technology meant any changes had to be manually hardcoded multiple times for each channel,” he said.

Tim Hardcastle, CEO of INSTANDA, a provider of digital engagement, distribution, and underwriting frameworks, adds that even consumer behaviour is proof of the slow pace, as three out of every four are using online banking – a much higher frequency interaction than insurance. “Agile, fully digital companies take years to evolve. At their core beats a heart that is based on modern flexible technology platforms. The



Tim Hardcastle, Founder & CEO, INSTANDA

opportunity and need for insurers to become better, has never been more prevalent or urgent,” he said.

The weight of legacy



Tony Grosso, Head of Global Marketing, EIS Group

So where does insurance struggle? Tony Grosso, Head of Global Marketing at EIS Group, believes factors like heightened customer expectations driven by sectors beyond insurance, sophisticated new technologies, and fierce competition are pushing the adoption of new business models and capabilities across every stage of the value chain. All these pain points have been exacerbated by the chaos of Covid-19.

EIS, a Silicon Valley InsurTech providing a core and digital platform, has found that a fundamental shift from product-centric to customer-centric business models means many insurers have core systems that are now legacy. These systems are not designed to meet customer and business needs in the new platform-based economy.

Grosso said: "Traditional insurers have struggled to date because digital transformation is a big undertaking and they have often taken on too much. They have tried 'Big Bang' and 'rip and replace' projects of large swathes of their operations that have faced delays and cost overruns."

Hardcastle agreed that old IT legacy systems make it hard to solve a number of challenges, including the common complaints that insurers take too long to pay out, too long to manually process claims, and that it is a complex purchase. "I think that these problems, which are a complex mixture of perception and reality, aren't necessarily new, but there is too much friction in the process," he says. "What's more, old legacy systems are also expensive to maintain. So not only are insurers struggling to meet customer demand, expand into new markets and get products to market and update them, quickly, it's also costing them."

While the sector has a tradition of struggling with happy customers, the Institute of Customer Service recently found that customer satisfaction with insurance companies in the UK is declining – and during the lockdown measures in the UK, insurance policy customers were left with long call wait times and uncertainty over when they would have their problems resolved.

"Another area is the effectiveness of underwriting in commercial lines," Tarquini added. "As well as the unknowns over the future impacts of Coronavirus, a changing climate and economic uncertainty is making it harder to calculate risk and guarantee profitability. Underwriters are waking up to the fact that getting work done in the most efficient way possible is important but striking a balance between winning customers and achieving a profitable portfolio mix is too."

Which roadmap to choose

Addressing issues caused by outdated and manual systems is another problem for insurers as the choice in approach can make or break the transformation. A jump to fully digital, cloud-based offerings is an extreme approach, and INSTANDA believes in combining the old with the new.

"Legacy systems cannot be replaced in weeks and months. But no-code platforms, where business users can migrate existing books into and augment with new product builds, do just that. They offer a compelling scalable 'get out of jail' card," Hardcastle said.

A true real-time environment gives insurers access to rapid product releases at low cost, real-time market insights, broker and customer self-service, dynamic policy management and dynamic integration – all creating market advantage. Some insurers have also had success leveraging InsurTech solutions across wearables and telematics, as well as AI-driven solutions like chatbots, virtual assistants, object recognition and voice biometrics, in an attempt to support a

customer-centric business model.

However, it has not been easy for insurers to take advantage of InsurTech. Opportunistically plugging in digital solutions across a value chain that does not have a fully digitised backbone may lead to high technical debt and broken customer journeys in the future, Grosso warned. "Even the core systems deployed 3-5 years ago simply were not designed with the microservices, APIs, and flexibility necessary to support InsurTechs, emerging business models, and digital insurance ecosystems. They are, in effect, modern-legacy systems.

"Some of these modern-legacy systems now operate in the cloud, which is great. But it doesn't change the fact that many need to be updated, or even re-architected, to easily participate in the new digital insurance ecosystems that can deliver value-added services to customers," he said.

Learning from mistakes

Following in the footsteps of banks when it comes to digital transformation might, however, come in handy for insurers. As the banking experience is ahead of insurance in overall numbers on the key metrics of customer experience and operational efficiency, it could serve as both a guidepost and a cautionary tale. For example, Grosso noted, Bank of Ireland's core modernisation initiative targets a cost-to-income ratio improvement from 65% to 50%, but the programme itself is struggling with cost overruns.

"Insurers can take advantage as fast followers and learn from this. Digital transformation can be hard. For most established players, it involves the transformation of multiple systems for multiple products. A more strategic greenfield approach that focuses on where the most business value can be realised quickest can be better than a grand, rip-and-replace programme." Tarquini noted that intelligent automation, the combination of automation and AI with case management to orchestrate customer outcomes, is a key digital solution as it allows organisations to handle a large volume of customer queries across multiple channels. AI can also help improve customer satisfaction and drive more effective underwriting.

"However, insurers need to use 'transparent', not 'opaque' AI to make sure the reasons for an algorithm making a certain decision are clear, such as whether to approve a claim or not. This ensures no discrimination is taking place, or that if it is, any bias can be spotted and eliminated," Tarquini said.

Hardcastle concluded: "If there's anything that this pandemic has shown us, it's that traditional business models and systems are placing a stranglehold on the sector, just at a time where it needs to be more responsive.

"As insurers embrace digital transformation, data and AI based services will afford consumers far greater control; selecting the services they need to improve their own claims records for example. Whilst it has been and continues to be, an incredibly difficult time, it is also one that offers great opportunity to rethink the way the industry operates."