SunTec®

Personalization: Key to The Success of Insurance Companies in The New World

Whitepaper

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Introduction

The insurance sector too has been hurt significantly by the COVID-19 pandemic. Strains are visible both in respect of existing customers and new business, as well as revenue and costs. Constraints imposed by remote working have reduced insurance companies' ability to address questions (especially over the phone), which, in turn, has adversely affected loyalty. Pandemic-induced lifestyle changes have led to a rise in demand for certain types of insurance cover (e.g., health and business interruptions), but a fall in demand for others (e.g., motor and travel). Intermediaries such as agents and brokers necessitate a high level of human interactions in new business generation. In light of the pandemic, these interactions have not always been possible, resulting in a new business slowdown even in segments where there is clear demand.

Other factors are also impacting the industry, e.g., customers looking for more digital engagement, higher claims related to climate change, adapting to a hybrid/remote working model, preparing for the higher risk of cyberattacks, rising instances of fraudulent claims, etc. Changes to customer risk profiles are also taking place as a result of innovations (e.g., sensors that promote driving safety).

To protect revenue growth as well as margins in the journey ahead, insurance companies must focus on becoming even more customer centric. Successfully building this capability will help increase loyalty of existing customers and make it easier to attract new ones. However, this shift is made difficult by a combination of legacy constraints as well as changes to customer needs and expectations that need new digital capabilities to enable and drive personalization and superior customer experience journeys. This white paper looks at the challenges that insurance companies face in this transformation journey and how they can potentially be addressed with the right enabling solutions.

Challenges That Insurance Companies Face Due to Their Legacy Systems

Many insurance companies still rely on legacy software systems to support core processes such as premium collection, underwriting, claim processing, policy management etc. In a world where customers expect smooth, seamless, omni-channel experiences, these insurance companies find themselves shackled by the technical rigidity of legacy systems. Here are five major ways in which legacy systems have become impediments.

Lack of a unified, customer-centric view makes personalization almost impossible

Most insurance companies, both life and non-life, have evolved in a way that each line of business has its own systems and processes. These silos have led to a multitude of home-grown and third-party software that do not talk to one another. Thus, data about customers who have purchased different insurance policies (e.g., motor, health, property etc.) from the same company, are spread across multiple systems that do not talk to each other. This product-centric view of customers is not conducive to the company getting a unified view of customers. In turn, this makes personalization difficult.

Limited agility in pricing/discounts

Insurance companies lack the flexibility to price their offerings on the fly. This is important because conventional marketing/sales processes and channels are being supplanted by engagement through digital channels. In the face of increasing competition and economic distress, fine pricing differences may well be the key to winning new business.

Cumbersome product management

Insurance companies have long-running policies that are contractually valid. New products too are introduced from time to time. As a result, the catalog includes a mix of several product types. Unless these catalogs are managed efficiently, there will be instances of duplication or confusion caused by similar products that could lead to mis-selling, which represents a major risk in terms of both reputation and regulatory compliance.

Introduction of new products (e.g., related to climate change or business interruption without damage) is also slower because most insurance companies still rely on old generation IT systems.

Changing customer needs and expectations in a digital world

Increasingly, customers expect to be treated as individuals and not part of a mass. They need product recommendations and special pricing from all service providers, including insurance providers. For instance, technological innovations such as adaptive cruise control, lane departure warning, collision protection etc. are increasing driver safety and thus changing the risk profile of auto insurance customers.

Customers driving such vehicles will expect lower auto insurance premiums, just as people with healthier lifestyles expect savings on their health insurance premiums. Also, given what customers experience when interacting with retailers and e-commerce platforms, customers increasingly seek to engage with service providers via digital channels. Many insurance companies are ill-equipped to deliver on these needs because of the relative inflexibility of their legacy systems.

Higher operating cost structures

The reliance on older systems comes at a cost, literally. It is estimated that automation and use of newer technology paradigms can reduce 25-30% of costs from critical back-end processes such as claims processing.[i] The right digital solutions can not only save customer acquisition costs (through disintermediation and greater personalization through digital channels), but also increase the chances of prospects converting to customers and save money lost to fraudulent claims.

Industry Trends That Insurance Companies Will Need to Respond To

Adapt to a hybrid model

It is reasonably clear that like other businesses, insurance companies too will need to quickly embrace a hybrid model of working. For such a model to be sustainable, it must have the right technological elements in place, so that the diverse interests of customers, employees and other stakeholders (agents, brokers, regulators etc.) are protected. Not only might such a model require a large number of employees to work from home, but it must also create the flexibility for companies to redeploy staff to support lines of business that are likely to do well at any given time.

Optimize channel loads

During the pandemic, a large number of anxious customers called their insurance companies for information on coverage, claims etc. over the phone. For some customers, the telephone was the most familiar communication channel, while others were forced to use it because there were no other digital options. Clearly, going forward, insurance companies must develop easy-to-use, secure and convenient communication and engagement pathways for their customers and prospects. Weaning customers away from phone-based contact centres is also a way to reduce costs while ensuring that all customer enquiries and requests are disposed of efficiently and within a reasonable time. This is important because in the last year, many insurance companies have faced situations where staff or agents were not able to direct customer enquiries and requests appropriately. In turn, this led to dissatisfaction, which is always a threat to persistency of policies.

Shift positioning

Insurance companies must continue to consciously shift the way they think about their customers, business partners and hence, their business itself. Rather than see themselves being responsible only for indemnification and payment of valid claims, they must consciously reposition themselves as partners who protect customers and help them lead the lifestyles they desire. Of course, this is in addition to developing the ability to respond faster when events occur in the lives of their customers.

Build ecosystems

Insurance companies can no longer operate as islands; they need to create ecosystems along with other businesses, so that collectively, the ecosystem can meet a larger chunk of their customer needs and expectations and deliver superior, differentiated customer experience journeys that foster loyalty to the ecosystem and its constituents. For example, tie-ups with automotive manufacturers whose vehicles are made with devises that help driving safety can give insurance companies more and better data to finesse risk profiles and thus offer better discounts to qualified customers.

Prepare for new entrants

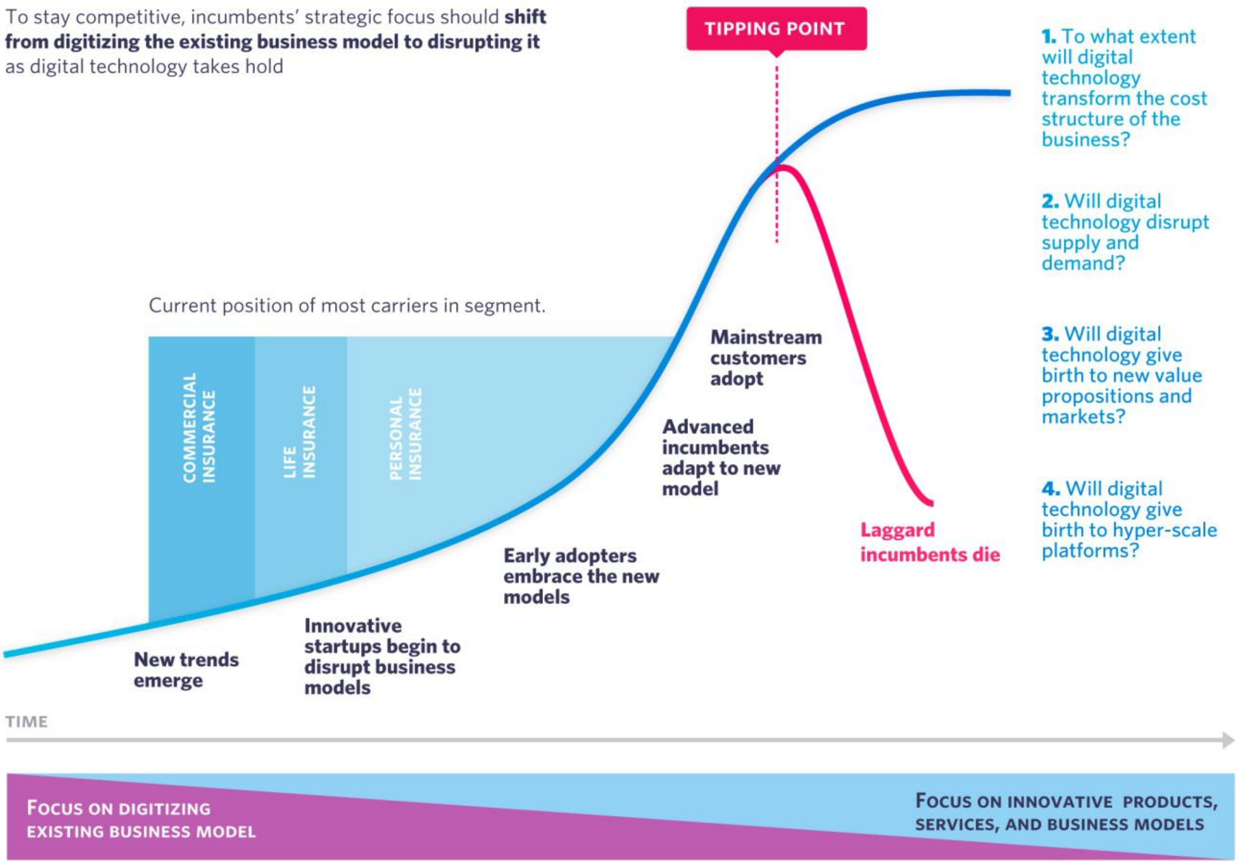
Thus far, the need for significant amounts of capital to assume insurance risk on their balance sheets has deterred new entrants. In the changing scenario, to enable more people to get adequate/appropriate insurance cover, regulators may well allow new players to enter. Insurance companies will thus need to prepare to take on threats from non-traditional competitors. Big Tech and large e-commerce companies have large customer bases and strong, "digitally-enabled" relationships that can be utilized for promoting new offerings including insurance (subject, of course, to regulatory approvals). Indeed, many customers already use non-banking digital payment solutions to pay insurance premiums. Such a trend has already disrupted the banking sector globally.

Accelerate digitalization

The diagram below, from McKinsey's report titled "Digital disruption in insurance: cutting through the noise", illustrates how digitalization can prove to be opportunities or threats to insurance companies, depending on how quickly they choose to respond and how good a job they do.[ii]

The digital tipping point

To stay competitive, incumbents' strategic focus should **shift from digitizing the existing business model to disrupting it** as digital technology takes hold



Digitalization: The Compass for Insurance Companies to Navigate in The New World

Insurance companies must shift to customer-centric thinking from product-centered views. They must get to know their customers as individuals and not just view them as broad segments with personas and characteristics attributed at the aggregate level. Companies that quickly make these shifts will be better equipped to deliver on customer needs and expectations, such as personalized offers and recommendations, dynamic pricing and discounts, and more targeted and relevant marketing (both in terms of communication channels and messages).

Another outcome of such a transformation is the improved frequency and quality of engagement with customers. In turn, this will open up avenues for bi-directional communication between insurers and customers that help gain more customer insights, further improving the relevance of products and services and raise the quality of customer experiences across channels. Without a doubt, digitalization will be the foundation for insurance companies to differentiate themselves and create a tangible competitive edge. By digitalization, we do not simply mean upgrading systems and infrastructure (although that will also be necessary in many cases). The focus is on using digital tools to get closer to customers in order to understand their needs better and thus be better prepared to address their changing needs and expectations. Insurance companies with multiple lines of business must use digitalization to transcend internal silos that customers don't care about. These silos could be between the property, health and motor insurance divisions or between the new business and customer service teams.

In the new world that insurance companies find themselves in, static data such as age, gender, occupation and type of vehicle owned is not enough to assess risks and needs robustly. For example, motor insurance companies must know their customers' driving habits and behaviours (where they drive, how often, traffic/road conditions, history of traffic violations, accidents, safety features in the car etc.). A property insurer must know what "smart home" devices are installed, but also, how they are used. For example, having an IoT based alarm is of no value if the residents do not always keep it on when they are going out. An important first step for insurance companies in this journey towards becoming more customer-centric using digitalization is to quickly enable:

- A unified view of the customer (and his/her family) that spans all lines of business and products; and
- Capture and analysis of structured and unstructured customer data to identify patterns and predict meaningful needs, preferences and shifts.

The above information will allow insurers to design and recommend personalized products, pricing and offers based on criteria such as individual risk profiles, ownership and usage patterns of various loss-prevention assets, loyalty to the company etc. Analytics are used to enhance operational efficiencies and innovate new products and services as well as create new business models. The insights generated also make it easier to provide timely tips to reduce risks, promote bundles of complementary offerings from ecosystem partners, thus increasing revenue, loyalty and lifetime customer value.

An Intelligent OTT Layer Can Quickly and Cost-Effectively Deliver Personalization Capabilities

Insurance companies can build new systems that equip them with the relevant digital capabilities. However, investment considerations and the time needed for this approach render it to be impractical.

A cost-effective alternative is to quickly implement an OTT ("Over the Top") solution that sits on legacy systems and functions as an intelligence layer. Accessing customer data securely from legacy systems, such a solution can quickly delver the following capabilities:

- Assess customer behavior to identify and analyze customer needs
- Recommend the "right" insurance products based on the behavioral/needs analysis
- Manage relationship-based discounts (household relationship etc.) with rule-based configuration
- Ensure quick and easy design and launch of offers, bundles, promotions, campaigns, etc.

Seamless integration with existing portals, together with a micro-services-based architecture enables orchestration capabilities that deliver self-service functionality to customers. This helps in addressing an important customer need: digital engagement capabilities that create superior experiences for customers while viewing recommended products and their benefits, understanding offers and their nuances and calculating premiums.

Easy-to-change rules control product pricing and discount management, thereby equipping companies to respond with greater agility than would be possible in a legacy system landscape. The icing on the cake is when such a layer can be implemented as a low- or no-code solution, which virtually eliminates the dependence on IT teams to respond to rapid changes in the market. By implementing such a solution, insurance companies will benefit in the following ways:

- Hyper-personalization and cross product benefits
- Enhanced customer experience
- Shorter times to market (for launching new products or adjusting pricing)
- Greater flexibility around pricing, discounts and rewards
- Achieve increased digital sales by orchestrating relevant offers and empowering customer by designing products and offers to meet their needs

Conclusion

Customer needs and expectations are changing under the influence of changes in demographics and rapid digitalization. For insurance companies too, delivering personalized offers, dynamic pricing and consistently superior experiences across engagement channels is becoming increasingly important. And because digital channels are becoming dominant, the right digital capabilities are critical. Many insurance companies are constrained by their legacy systems that make it difficult to address customer needs efficiently and effectively, especially in the wake of the disruptive pandemic.

OTT intelligence layers can provide a cost-effective, speedy solution to circumvent these constraints. In addition to enabling personalization through rules-based pricing and discounts and streamlining product management, such solutions also help insurance companies transform themselves into "partners" who proactively support customers in reducing the risk of adverse events, thus enriching lifestyles. Indeed, it would be fair to state that insurance companies must embrace digitalization as a way of insuring their own businesses from value erosion in the days ahead.

Source

i https://www.mckinsey.com/~/media/mckinsey/industries/financial%20services/our%20insights/time%20for%20insurance%20companies%20to%20face%20digital%20reality/digital-disruption-in-insurance.ashx

ii https://www.mckinsey.com/~/media/mckinsey/industries/financial%20services/our%20insights/time%20for%20insurance%20companies%20to%20face%20digital%20reality/digital-disruption-in-insurance.ashx

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