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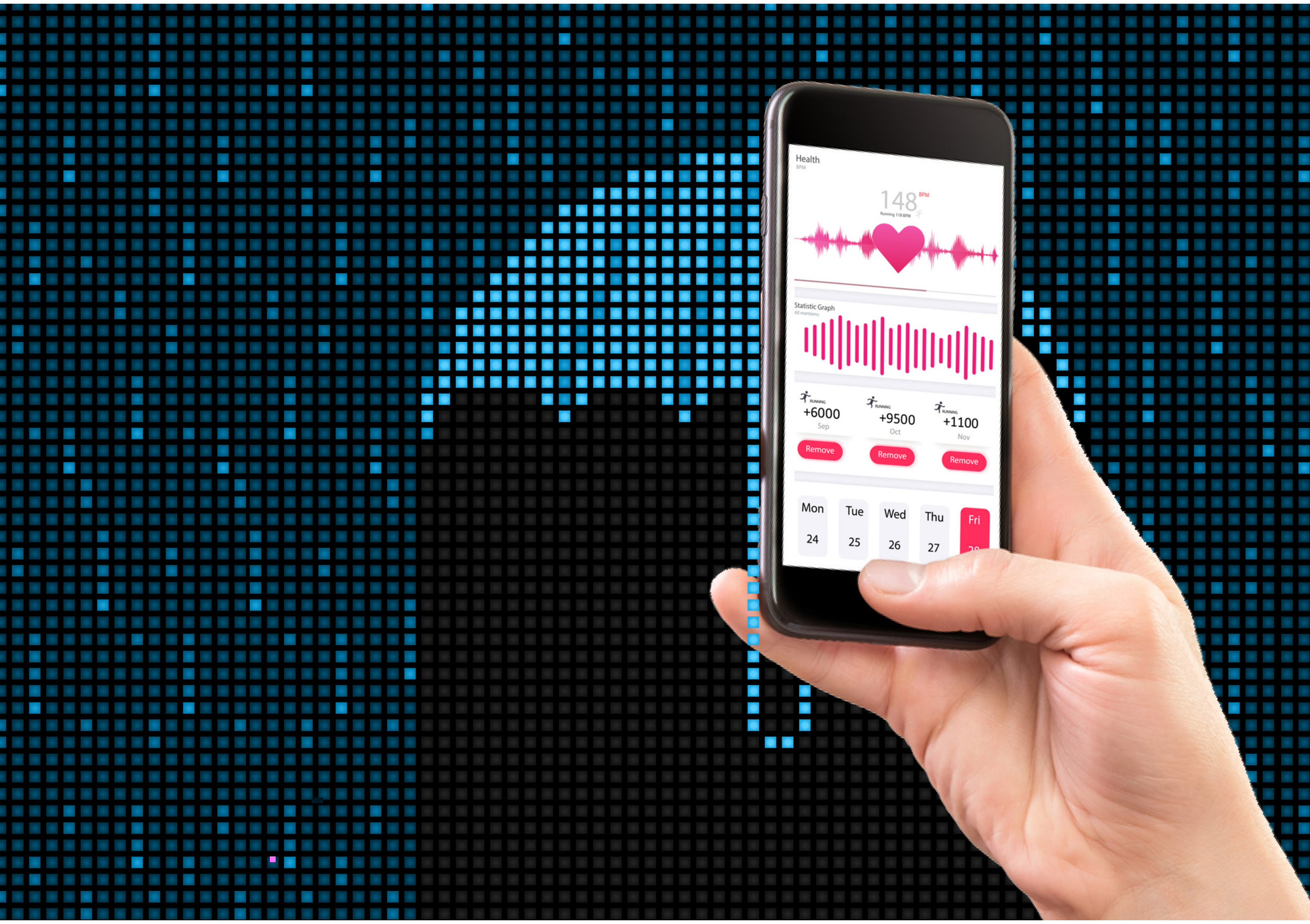

Digital Disruption in Insurance

Winning by unlocking the value of Digitization

SMART IDEA & PRACTICE

SMART PAPERS

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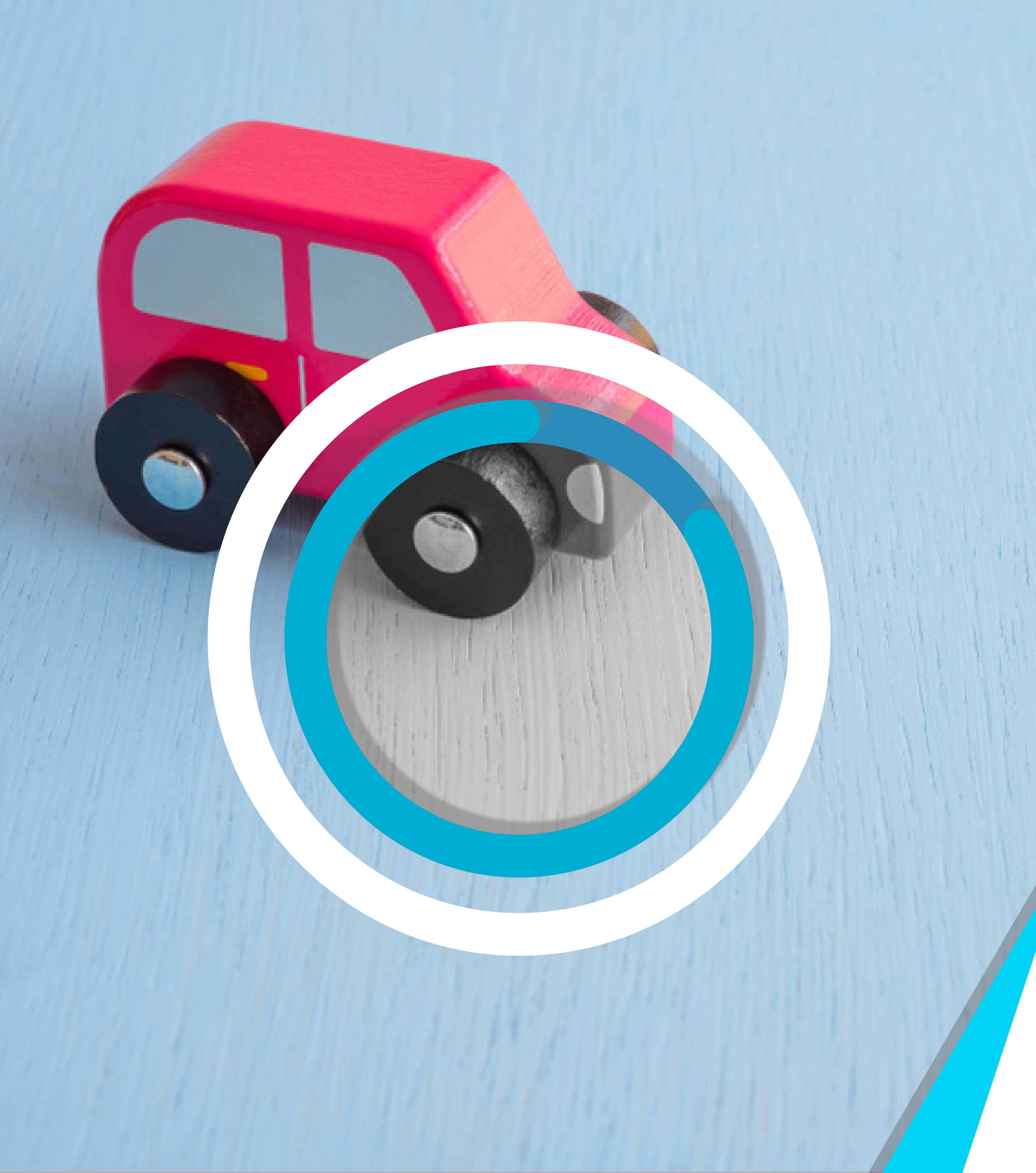

INTRODUCTION

Traditionally, insurance has been a very conservative industry, including in its implementation of information technology across its strategies and solutions. This sense of innovation has already begun to shift as the insurance industry is incorporated ever further within a number of technological advances which, if properly integrated, could totally alter the current insurance market and its customer interactions. In this context, digitalization is expected to significantly alter the entire insurance environment, affect all points along the value chain of insurance and thus reshape the competitive landscape. By increasing data collection through new digital technologies, companies are better able to facilitate a more granular underwriting of risk insurance. Smart analysis techniques, predictive modelling and connected telematics devices permit insurers to create products and set premiums based on risk profiles rather than on general standards.

Due to increased regulation and competition from new market entrants and existing firms, the decline in profit margins forces existing firms to pursue cost savings and improved efficiencies while seeking better competitive performance through strategies of greater consumer proximity and customer loyalty. New technologies have had a profound impact on the delivery process, where the use of digital platforms and the emergence of new media have significantly altered the service's sales process, mode of use, and, ultimately, customer relationships.

The contemporary digitized landscape will also raise further insurers' concerns around this trend. The growth of the digital economy is also radically changing the expectations and behavior of customers. For instance, increased consumer use of portals and aggregators would improve product transparency and reduce switching insurer's costs. Consumers have a wide range of information at their disposal to help assess risk exposures and become more self-directed in how they choose to meet their insurance needs. Therefore, it is important for companies to change the way they run their businesses in order to keep engaging their customers, who are demanding more individualized offerings and fully integrated sales and service channels.

The rate of implementation of new and innovative solutions in changing the way insurance companies carry out business operations will continue to grow over forthcoming years. Such developments are not just centered around digitizing the legacy company, but also communicating to the enterprise as a whole that there is a better way of working. Such solutions will contribute towards a sense of positive energy yet also introduce a degree of risk, while providing new opportunities and satisfying performances. Businesses are challenging their employees to help facilitate new customer-centered structures, model ideas and goods, and release them under a new management system and set of controls revolving around HR, accounting, operational structures, etc.

Such a system will involve the adoption of a completely new strategy and result in a technological greenfield being built that could allow it to move beyond the existing frameworks and environment to achieve their goals. Digitalization provides a huge opportunity for those insurers who are ready to rise to this initiative. The most profitable businesses are those that use the digitalization drive to rethink all their activities, from underwriting to customer service to claims management. It can have a huge impact on both revenues and costs. By becoming more effective and efficient, pioneers of digital technology will gain an important edge over their rivals.

3 Challenges Facing Insurers Today

Insurance companies are considered to be institutions that are able to eliminate or mitigate the adverse effects of unexpected misfortunes. Nevertheless, insurance firms are also able to act as underwriters for risk results. Industrialized and advanced economies rely on insurers, which is why many companies and industries in developed countries do not liquidate or 'go under' unless no other solutions are presented. Nowadays, any company is expected to undergo changes that can be either negative or positive.
There are various issues to be addressed in any sector. Insurance executives believe that technology can help them improve their profitability and customer loyalty while reducing costs and boosting growth.
In order to achieve an effective digital task, insurers are faced with several challenges before successfully executing it.

A

Technological Challenges

A number of changes and adoptions to innovation with the industry have had a significant impact on the insurance sector. These improvements can be segmented as follows: [1]

↓ CONSUMER / CHANNELS

A number of new technologies are developing and offering new opportunities for communication between customers. Consumers are seeking an online experience and these expectations will only increase with internet penetration and wider global usage. However, when it comes to changing customer experiences, the web is only a part of the equation. Consumers are constantly using mobile devices to communicate with businesses. In the banking sector, for instance, player are now offering a mobile app to satisfy many customer needs. Consumers are now also demanding similar initiatives from insurers in some countries the market has become 'mobile first', as users bypass fixed broadband and move straight to their mobile devices.
Insurers should find ways to use such tools and take advantage of new devices to communicate with their customers. To remain competitive in the digital transformation, insurers will have to resolve a systemic challenge: frequency of interactions. The use of social media has increased dramatically; consumers are constantly using networks. Their social media value is likely to grow and change, making it important for insurers to develop a clear strategy on how to handle them. Nonetheless, a few insurers have shown that they have a social media management policy that engages customers through a positive commitment.

[1] Morgan Stanley (2014). Insurance and technology.

▼ Claims

Claims processing remains a primary function for carriers in 2030, but claims-related head counts were reduced by 70% to 90%, relative to 2018 rates. Advanced algorithms manage the routing of initial claims, increasing efficiency and accuracy. Triage claims and repair services are often automatically triggered in the event of failure. Automated customer service apps manage most policyholder communications by voice and text, directly following self-learning templates interfacing with claims fraud medical service, policy, and repair systems.

Claims companies are increasing their attention on tracking, avoiding and reducing risks. IoT and new data sources are used to detect risk and cause actions if the AI-defined thresholds are exceeded. The purpose of customer interaction with insurance claims companies is to avoid potential damages. Individuals receive real-time warnings that can be connected to automated monitoring, maintenance and repair interventions.

Rapid technological advancements over the next decade will lead to major changes in the insurance industry. AI-based insurance winners will be insurers leveraging new technologies to develop innovative products, incorporate cognitive learning insights from new data sources, streamline processes and lower costs, and meet customer expectations for individualization and flexible adaptation. Most importantly, carriers focused on creating opportunities from disruptive technologies, instead of seeing them as a challenge to their current business, will thrive in the insurance industry in 2030. [49]

▼ Underwriting and Pricing

For most personal and small business items, manual underwriting ceases to exist in 2030 by life and property and casualty insurance. The underwriting process is reduced to a few seconds as most underwriting is automated and assisted by a combination of computer and deep learning models built into the stack of technology. Regulators evaluate AI-enabled models based on machine learning, a role which requires a straightforward method to determine the traceability of a score.

Regulators examine a mix of template outputs to check that data use is acceptable for marketing and underwriting. They also create test policies for providers to ensure that the outcomes of the algorithm are within accepted limits when determining rates in digital plans. Price remains central to customer decision-making, but carriers are innovating to reduce solely price competition.

[49] McKinsey (2018). Insurance 2030-The impact of AI on the future of insurance.

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