

BECOMING STRATEGIC WITH INTELLIGENT AUTOMATION

PAPER 4 INTELLIGENT AUTOMATION IN INSURANCE

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“The word ‘risk’ derives from the early Italian word ‘risicare,’ which means ‘to dare.’ In this sense, risk is a choice rather than a fate.”

Peter Bernstein,
“Against the Gods”



FUTURE VISION

What will the insurance industry look like in ten years? What role will intelligent automation play? What other options are available for operational efficiency and agility? These are critical questions for an industry whose essence is calculating risk. As a data-driven business—from risk assessment and underwriting to distribution, pricing and claims—the entire industry value chain is ripe for intelligent automation and digital transformation.

Present technological trends point to projected 2030 realities. Insurance purchasing becomes exponentially faster. Risk profiles are automated and updated in real time. Customers receive more or less instant quotes. Blockchain applications enable smart contracts and fast payments. Policies provide micro-coverage via multiparty insurance and adapt dynamically to individual behavioral patterns and needs. Agents rely heavily on technology to carry out many more tasks. Underwriting is automated to a few seconds for most customers across life, property and casualty lines. Predictive analytics enable proactive, complex policy offers. Through automation, pricing has become massively sensitive and competitive. Differentiated customer experiences provide key metrics and set expectations, but profit margins are very thin.

Claims processing, including fraud detection, is 90% automated, using the full array of available technologies. Headcount is 80% lower than today, with processing times measured in minutes, even seconds. Preemptive technologies, for example IOT sensors in the home or car, are massively focused on reducing claims before they arise. Except for unusual, contested and complex claims, customer service is largely automated and claims are settled within minutes. In the face of all this, not surprisingly, regulation has become highly technologized, focused on reviewing and approving machine learning-based models, data usage, and underwriting practices.

TODAY'S CHALLENGES

How does this all happen? There are some obvious drivers. First, customers' digital expectations have grown. And the pandemic crisis has further accelerated the adoption and convergence of automation and digital technologies. Put simply, digital technology works, it's available, and it provides the resilience the insurance industry needs. Insurers are also realizing new uses for it. Taking a customer-focused approach and targeting traditional insurers' pain points and inefficiencies, insurtechs are providing stiff competition even in an already competitive market. Alternatively, they are pursuing a direct-to-consumer strategy, launching new easy-to-use products, and pressuring adoption of automation and digital technologies.



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Even greater drivers are the historic and unsustainable high operating costs across the industry. Unlike other large-scale industries, large global insurance players (with some leading exceptions) have generally not improved their overall productivity in the last ten years. While investments in automation have boosted labor efficiencies, overall cost ratios have not improved. Addressing this issue alone, the industry is ripe for structural changes. According to a McKinsey study, the top 20% take nearly all the industry's economic profit and are notable for their close cost management. Yes, some are very large companies that capture economies of scale. Others benefit from less complex operating models in highly standardized market segments, e.g., bancassurance risk products. Still others have been heavily investing in digitalization and automation and are starting to see the benefits.

The challenge, therefore, becomes structural change, not least simplifying the end-to-end business model and capitalizing on the massive opportunities provided by digital and automation technologies.

In our research, however, it became clear that just solving the insurance industry's efficiency problem is an insufficient strategy. As demonstrated by our 2030 scenario, the industry, aided and abetted by advanced technologies, will move on from greater efficiency to become predictive, then future-ready. In 2021, then, the three immediate areas for attention are efficiency, yes, but also innovation and customer experience. Let's look at some illustrative cases.



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GLOBAL

Exemplifying our “3Es” journey narrative (Efficiency, Effectiveness, Enablement), this global provider began by capturing **efficiency** gains at scale, thereby releasing funding and resources to support more advanced transformation programs. With a federated operating framework, the company created a global Center of Excellence (COE), co-located with its global IT, cloud, infrastructure, and business services teams. The COE established preferred supplier relationships for RPA platforms and cognitive tools and published guidelines at a global level, enabling local business entities to identify where to focus first, depending on their current operating state.

With overall enterprise architecture responsibility, the COE provides advisory services to operating units, along with end-to-end “automation-as-a-service” and RPA “platform-as-a-service” delivery capabilities. During the first stage of deployment, the focus was on leveraging the legacy enterprise data and application estate for **efficiency** and cost reduction. Its larger remit is to help business groups scale automation in a cost-effective manner.

To date, the company reports strong **efficiency** gains from 24/7 operations, supporting higher employee productivity with lower recruitment/training costs.

Process improvements have seen fewer FTEs utilized and some staff redeployed to higher value tasks. In turn, these gains have supported wider business **effectiveness** from higher and faster transaction throughput, increased asset utilization and ROI, and workload relief for IT applications developers. Automation has also improved regulatory compliance, strengthened security, and produced greater employee stability and job satisfaction.



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These gains in **effectiveness** have, in turn, led to significant gains in enterprise **enablement**, including better analytics, development of new products, greater enterprise scaling, responsiveness and agility, resilience in the face of event threats (including the COVID-19 pandemic), differentiated customer experiences achieved relatively cheaply through RPA, and more agile and streamlined end-to-end value chains, all resulting in deeper and wider market penetration and share.



The top three gains so far have been in workforce optimization, customer experiences and resilience, but much more is expected, and the company is well along the path to digital transformation.

UNITED KINGDOM

A UK insurer initially sought to capture value from what it called “automation arbitrage” - cost **efficiencies** resulting from addressing what the leading automation executive describes as “*growth through evolution rather than design*” that had led to a very complex organization.



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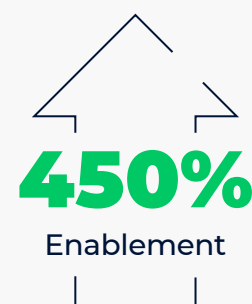
Beginning in 2016, the initial strategy focused on automating stable processes and reducing the transaction volumes sent to its BPO provider. The solution involved disaggregating the customer onboarding process, applying digital workers to handle complex transactional parts of the process, while relying on the BPO provider to handle parts requiring human interpretation.

Automation also reduced rework loads. As an indicator, at one stage, 21 robots were doing the work of 50 full-time employees more consistently, at lower cost, and with improved data quality and integrity. The company aimed for and achieved **efficiency** gains of some 150%. The introduction of more cognitive automation tools will likely see more process steps being brought back in-house.

The automation targets have also moved to capture greater enterprise **effectiveness** by automating other processes, creating what it calls an “*evolving business case.*” The automation lead commented, ‘*You automate the 50,000 things you do every day; the things that take up your time.*’ Automation greatly improved compliance, for example – transaction accuracy, traceability and auditability. Augmenting human workers through automation enabled large numbers of new customers to be enrolled quickly with processes running around the clock when, before, it took weeks and additional staff.

Further gains in enterprise **enablement** came from added capability, gained by applying what the company calls AFTEs, or automated full time equivalents to handle new workloads—work that wasn’t being done before or short-term demand spikes—without hiring temporary human workers. Automation has delivered massive gains in increased resilience and rapid administration, especially during the 2020-21 pandemic.

Taken together, the company’s automation gains have been remarkable. In addition to **efficiency** gains of 150% compared to its previous “run” model cost, it estimates an additional 150% unplanned value gains from increased enterprise **effectiveness**, and a striking 450% gain in superior enterprise **enablement**. This insurer exemplifies the pattern we have seen in other sectors: intelligent automation value is exponential, not linear.



EUROPE

This major European insurer started with RPA in 2015 in the life, commercial and claims parts of its business. By 2017, it had built an automation COE, which it then extended to a federated model, with a hub in claims. The strategy was to help other business lines improve processes relevant to them, then scale to an enterprise-connected digital workforce. Customer and governance benefits from automation have been more recent targets.

The insurer had planned 100% **efficiency** gains, and so far has realized 80%. These gains come from 24x7 operations, fewer FTEs needed (e.g., in one country, at one point, 55 robots ran 125 processes), process improvements, and cost avoidance. Automation greatly improved speed on payments, checks and response to customers (e.g., check creation went from a 24-hour delay to one hour). Security has also improved.

As with our other two companies, most of the **effectiveness** gains—estimated to be 100%—were not planned. They come from a mix of higher volumes, increased enterprise ROI, and avoiding the IT queue, leading to improved regulatory compliance and enterprise margin improvement. Early integration of cognitive tools and a recent optimization of skills sets have led to better quality data for analytics and improved customer and employee engagement/satisfaction. The company has also experienced big gains managing critical business processes, e.g., disaster recovery, dealing with backlogs, handling process peak periods, and being able to switch digital workers across HR, finance and claims processes.

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The company is on track to achieve its planned 100% **enablement** gains from its intelligent automation platform, which is already producing better analytics for decision-making, creating first-mover advantages through faster broker acquisition and integration. The intelligent automation platform has also facilitated a differentiated total customer experience (e.g., faster claims, better and more up-to-date information, and speed to quote) and offered greater resilience all round during the 2020-21 pandemic crisis. More processes are in the automation pipeline as the digital workforce grows (in one country from 75 to 120 digital workers), and as the COE scales to 75 staff.



The company is on track to achieve **100% enablement gains** from its intelligent automation platform.

CONCLUSION

We have highlighted three insurance companies well on the way toward true digital transformation with intelligent automation. What lessons do they yield?

- 1** All three evolved their automation targets, gaining early **efficiency** wins, and discovered new value as they applied automation more broadly and knowledgeably. Frequently, the **effectiveness** gains were not even guessed at, let alone planned for. Companies that follow can no longer make that excuse.
- 2** Our executive respondents all commented about how difficult it was to forecast potential and actual **effectiveness** and **enablement** gains. However, all could forcibly state where the gains had been achieved, *and where future gains would arise*. We placed the vision of likely 2030 realities at the beginning of this paper. Can anyone honestly refute the trends, how they are accelerating, and what outcomes are likely for the insurance industry worldwide? The three companies we have looked at are finding their way forward. Direction, trial and error, patience, and long-term vision and investment have become the keys to transformation in the insurance sector.
- 3** The insurance sector is, by its nature, very risk averse. And this is absolutely right for certain parts of business. But in other parts, just because risk, cost and gain cannot be precisely calculated or forecast does not mean they can be safely ignored. Sometimes the risks of taking action are much smaller than not acting. Intelligent automation and digital transformation are already game changers for insurance sectors worldwide. Are you on course for our 2030 vision, or can it be safely discounted?

ABOUT KNOWLEDGE CAPITAL PARTNERS

Knowledge Capital Partners is a global knowledge resource for organizations seeking expert advice and best practice in the sourcing and operation of technology, business services and public services. Offering empirically based research, executive education, and advisory services to businesses and governments worldwide, we provide an independent perspective through a global network of senior business professionals, academics and consultants. We help organizations design and implement sustainable sourcing and operations strategies that are ethical, socially responsible, commercially effective, and professionally managed. www.knowledgecapitalpartners.com

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RESEARCH BASE

Our research draws upon a KCP/LSE proprietary data base of 500-plus RPA and cognitive automation cases studies taken from multiple sectors and economies. These were studied over time (from 2015-2021) and included 'leader,' 'follower,' and 'laggard' users of the technologies. We gained additional insight from four annual surveys during this period. Earlier findings appear in four books (see note 1 below) and in the Blue Prism series "Keys to RPA Success" and "Just Add Imagination," as well as published articles in Sloan Management Review, Harvard Business Review, LSE Business Review, Forbes and MISQ Executive. Building on these foundations, in 2021, we researched an additional 15 advanced user organizations taken from the banking and finance, insurance, health, telecommunications, and utilities sectors in the USA, Europe and Asia Pacific. We used interviews, documents, and survey questionnaires. We also reviewed more than 350 award submissions covering innovatory and effective automation practices. The objective was to gain further insight into the technologies used and the business value being planned for and achieved, to guide existing and potential adopters. This research series will include focused analyses and reports on 5 key industries: banking, insurance, telecoms, healthcare, and utilities.