TRANSFORMING INSURANCE IT OPERATIONS TO UNLEASH INNOVATION

Abstract

The insurance industry has undergone significant disruption driven by technological advancements, evolving regulatory landscapes, and changes in customer demands as well as micro and macro environments. In this rapidly evolving business landscape, digital competencies have emerged as a sustainable competitive differentiator and a critical pathway to future success. However, innovation spanning product offerings, digital sales, business models, and ecosystem integrations is limited due to old legacy systems. Thus, systems transformation within insurance is the need of the hour, particularly for established players.

This point of view looks at the key aspects of business and systems transformation that insurers must undertake to address these aspects. The transformation can be broadly classified into customer-centric approaches, product diversification, ecosystem partnerships, core system modernization, digital enablement, and, finally, data and analytics capabilities.

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INTRODUCTION

Despite the substantial investments that insurance companies are making in technology initiatives to drive transformation and digitalization, many are struggling to achieve the desired outcomes at the needed pace, if at all.

The annual growth rate for technology spending in the insurance industry has consistently remained in the high single digits, yet the sector's digital maturity continues to lag other industries. This disconnect between investment and outcomes is a concerning trend that the insurance industry must address.

While insurers recognize the imperative for business and systems transformation, their efforts seem to fall short of expectations, jeopardizing their ability to remain competitive and meet the evolving needs of modern customers. In turn, this could result in insurance companies spending valuable resources that fail to deliver the expected outcomes, causing them to fall further behind their competitors who have successfully leveraged digital capabilities[1].

To fully capitalize on technology investments, insurers must adopt a strategic and holistic approach to transformation.
By aligning business and IT strategies, insurers can drive meaningful change, enhance operational efficiencies, elevate customer experience, and ultimately strengthen their market position.

GLOBAL TRANSFORMATION TRENDS

The future of insurance will be shaped by several key trends and technologies. The insurance COTS platform market was valued at US $81.7 billion in 2023 and expected to grow to US $156 billion by 2028, driven by the need to meet evolving customer expectations, regulatory and compliance adherence, and secure transactions[2].

1 Insurers must continue to prioritize customer-centric approaches. By leveraging advanced data analytics and AI, they can deliver personalized services and products, enhancing customer satisfaction and loyalty.

2 Product diversification will be crucial. As customer needs evolve, insurers must innovate their offerings to cater to diverse demographics and emerging risks. This includes developing new products for cyber insurance, climate risk, and gig economy workers.

3 Finally, ecosystem partnerships will play a significant role in driving innovation and operational efficiency. Collaborations with Insurtech startups and technology firms can provide insurers with access to cutting-edge technologies and innovative business models. According to one report, by 2025, 75% of insurance executives surveyed believe that ecosystem partnerships will be critical to their growth strategies[3].

Modernizing insurance core systems will be essential to unlock the full potential of digital transformation programs. Moving away from legacy systems to cloud-based insurance platforms will enhance agility, improve data management, and reduce operational costs. Insurers that invest in core system modernization are expected to achieve growth up to 20% over five years[4].

Yet another clear trend is digital enablement through advanced technologies such as blockchain, IoT, AI and generative AI (GenAI) that will redefine the insurance landscape. A 2022 McKinsey report states that "blockchain-enabled smart contracts have the potential to reduce administrative costs by eliminating fraud and errors in insurance processes".[5]

In summary, enhancing data and advance analytics capabilities will drive informed decision-making and strategic planning. Advanced data-driven organizations are predicted to achieve more than 25% in revenue growth and profitability[6].

To understand the future of insurance, we will now delve into the critical business, technological, and regulatory trends shaping the insurance landscape.

1 BUSINESS TRENDS

Over the years, insurers have built highly complex product structures and legacy systems. These product offerings have evolved based on changing market needs, system limitations, technology trends, and regulatory requirements. As a result, the existing business operating models have become increasingly complex and challenging to execute.

With the growing emphasis on digital operations, insurers are now seeking more uniform, flexible, and efficient operating models. These new models need to be able to support the rapidly evolving business requirements of the insurance industry. The goal is to move away from rigid and complex legacy systems and product structures toward operating models that can adapt quickly to the dynamic market and technological changes.

As insurers recognize the need to modernize their core systems and operations to better serve customers, drive innovation, and maintain a competitive edge, here are the top three key business trends to consider:

Leveraging cloud-based insurance COTS solutions

This trend highlights the shift towards using pre-built, cloud-based software applications to streamline core business operations within the insurance industry.

Hyper-personalized omnichannel customer experiences

This trend emphasizes the importance of delivering exceptional customer service that caters to individual needs (personalization) and utilizes various communication channels (omnichannel) to ensure a seamless experience[7].

Modernized and adaptable product structures

This trend focuses on revamping existing product offerings to be more streamlined and flexible. It allows for easier customization and faster adaptation to market changes.

2 TECHNOLOGY TRENDS

The insurance industry is effectively addressing several long-standing challenges through innovation and strategic implementation. The adoption of cloud-based platforms and SaaS models overcomes the limitations of outdated and rigid legacy systems by offering scalable, flexible, and cost-efficient solutions that enhance operational agility.

Further, large language models (LLMs) have the potential to revolutionize insurance operations, particularly claims processing and underwriting. Presently, LLMs are gaining popularity due to their ability to automate repetitive tasks, expedite, and improve the accuracy of underwriting decisions, and significantly enhance customer service[8]. The top three technology trends for insurers to look out for are:

Composable architecture

The insurance industry is moving towards a 'composable enterprise' model, akin to building systems like Lego sets. By leveraging pre-built components of insurance COTS and smaller, specialized services known as microservices insurers are creating flexible and adaptable systems.

Artificial intelligence and analytics

Insurance COTS products are now smarter than before. These solutions are packed with built-in AI and advanced analytics features that transform key areas for insurers such as underwriting, claims processing, customer engagement, etc.

Ecosystem integration

Insurers are breaking down existing silos and connecting their insurance COTS platforms with a network of valuable partners. This includes data providers, Insurtech startups, and other businesses in their ecosystem. By working together, insurance companies can gather a wider range of data, make smarter decisions based on insights, and offer customers holistic insurance solutions.

3 REGULATORY TRENDS

The growing adoption of cloud computing in the insurance industry has introduced a wave of regulatory scrutiny focused on cybersecurity, data privacy, and evolving compliance standards. This increased focus stems from the inherent security challenges associated with cloud-based environments. The top three regulatory trends for insurers are:

Digital resilience

Regulators are prioritizing the ability of insurers to withstand and recover from cyberattacks. This translates to stricter regulations mandating robust cybersecurity measures, incident response plans, and business continuity strategies.

Data privacy

As insurers move customer data to the cloud, safeguarding sensitive customer information becomes paramount. Regulations will likely become more stringent around data security, access controls, and user privacy. The industry can expect further regulations that mirror existing frameworks such as the General Data Protection Regulation (GDPR) implemented in Europe.

Compliance with evolving standards

Regulatory bodies are constantly adapting their standards to address the evolving cyber threat landscape. Insurers will need to stay abreast of these changes and ensure their cloud-based operations comply with the latest security and data privacy regulations.

This surge in spending reflects a strategic move by the insurance industry, i.e., the shift towards adopting readily available insurance COTS and embracing innovative technologies.

Such an approach will drive innovation, streamline operations, and elevate customer satisfaction. The substantial financial commitment estimated in these areas underscores the industry's dedication to digital transformation, so they remain competitive in this fast-paced environment.
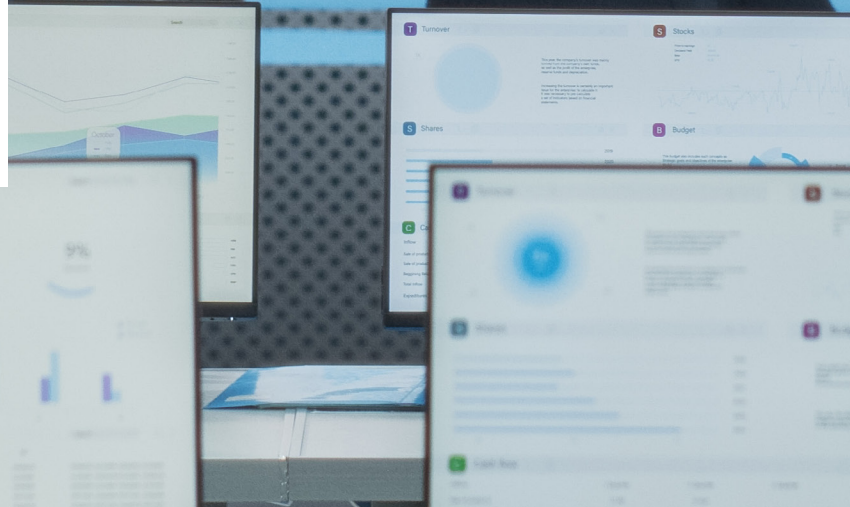
GUIDING PRINCIPLES AND KEY SUCCESS FACTORS FOR TRANSFORMATION PROGRAMS

A successful transformation program drives significant positive change within an organization. Insurers looking to effectively navigate this journey can consider the following key guiding principles:

Set clear goals

Be it short-term or long-term, that define business success.

Engage in joint planning

Through detailed operating and financial plans supported by metrics that enable continuous tracking of progress.

Ensure accountability

Through forums with defined agendas supported by metrics that drive decision-making and accountability toward the stated goals.

Foster a customer-centric culture

That promotes an intentional mindset of delivering superior services and experiences to both internal and external customers. Aligning business with technology can greatly support successful transformations[9].

Build a single voice

Across internal and external communication such that exchanges are collaborative and celebrate mutual successes.

Establish holistic governance

To oversee the transformation efforts and its impact on business-as-usual.

Focus on flexibility

That allows advisory teams to quickly detect and respond to organizational and market developments.

Following these guiding principles requires a strong transformation management office (TMO) that will address challenges and issues and achieve key milestones as per the roadmap to realize the overall business goals.
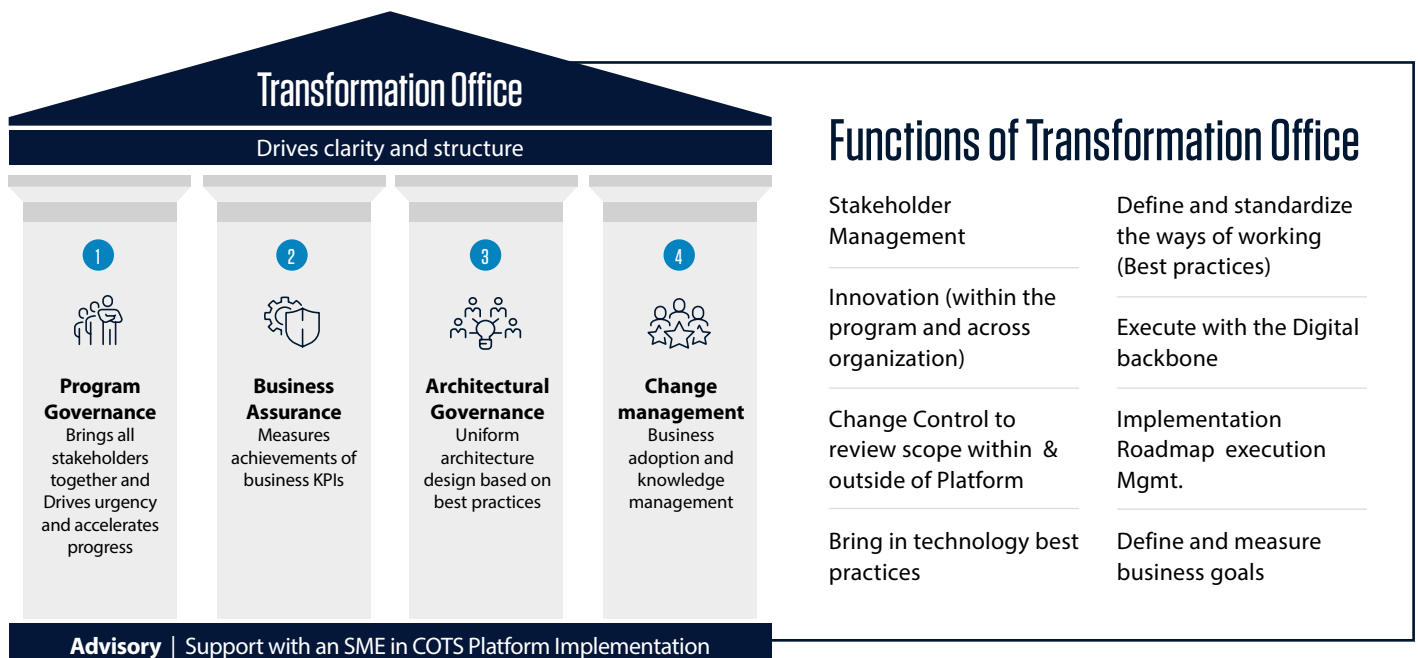

Transformation Office

Drives clarity and structure

1 Program Governance
Brings all stakeholders together and Drives urgency and accelerates progress

2 Business Assurance
Measures achievements of business KPIs

3 Architectural Governance
Uniform architecture design based on best practices

4 Change management
Business adoption and knowledge management

Advisory | Support with an SME in COTS Platform Implementation

Functions of Transformation Office

Stakeholder Management

Innovation (within the program and across organization)

Change Control to review scope within & outside of Platform

Bring in technology best practices

Define and standardize the ways of working (Best practices)

Execute with the Digital backbone

Implementation Roadmap execution Mgmt.

Define and measure business goals

Fig 1: Pillars and functions of the insurance TMO

TRANSFORMATION STRATEGIES

Effective transformation programs necessitate meticulous strategy and execution across various dimensions. While a transformation management office offers a broad overview, there are tactical aspects of the implementation to consider.

Leadership and the organizational culture play a significant role in these efforts. Therefore, aligning strategy with a supportive culture is essential for achieving exceptional results.

1 When considering product versus process transformation strategies, it is important to evaluate the advantages and disadvantages of different approaches. One method is to develop a single product as a minimum viable product (MVP) and build the end-to-end processes around it. Another method is to roll out processes such as new business and policy issuance across all identified products. Both these strategies have their merits and can be weighted based on parameters such as the business volume, business growth plan, IT landscape, availability of SMEs, and how the core platform and ecosystem align with the business requirements.

2 Selecting the right insurance COTS platform with minimal customization and maximum configuration to meet business requirements is crucial to create a future-state architecture and a modernized microservice-fueled system.

3 Data migration is another key component for which various strategies are available. Modern solutions like data lakes can be used to handle historical data in legacy systems, thereby avoiding the complications of traditional data migration. The conventional approach of end-to-end data migration is rarely used due to the time and cost involved.

4 Organizational change management is vital to onboard business users and identify transformation evangelists within the business team to promote the transformation across larger groups. This will foster high acceptance of the new system within the business community.

5 An end-to-end ecosystem view is essential to ensure that transformation is comprehensive and aligns with business goals. Low-code and no-code platforms help enhance the user experience. Majority of insurers are partnering with Insurtech companies and other technology providers to integrate innovative capabilities into their insurance COTS solutions.

6 The adoption of data and analytics has significantly advanced among insurers, serving not merely as systems of record but also as critical components of transformation programs. Data and analytics help enhance product offerings to customers with insights into trends that guide the strategic executive team to meet customer needs, and thereby grow market share.

7 Achieving high-quality, fully compliant operations and operational excellence is crucial for organizations aiming to reduce total cost of ownership (TCO) in the long term.

BUILDING AGILE TRANSFORMATION TEAMS AND OPERATING MODELS FOR SUCCESS

Successful transformation programs rely heavily on having a skilled and competent team. Therefore, insurers and system integrators are now focusing on building agile teams with the following capabilities:

Cross-functional

This involves teams having the right skillsets needed for the program with a blend of strategic thinkers, change management experts, technical specialists, and operational leaders. It also includes building a team culture for continuous learning.

Responsibility matrix

This helps define roles and responsibilities for all key stakeholders in order to clearly distinguish concerns and duties and avoid overlaps and gaps.

Collaboration and communication

Achieving this requires an open and collaborative environment with effective communication channels.

Looking at the transformation strategies and the requisites of a winning agile team, the key tenets of designing an effective and resilient operating model for a transformation program are:

Alignment with strategy

The operating model should directly support the organization's strategic goals and buy-in from all levels of the leadership team.

Customer-centricity

Prioritize customer needs and experiences throughout the model to achieve continuous improvement in customer experience and user journey across all key personas.

Data-driven decision-making

Integrate data analytics to inform strategic choices and measure performance.

Automation and efficiency

Leverage a range of technologies across all phases of the transformation program to streamline processes and reduce costs.

Performance measurement

Define key performance indicators (KPIs) and use a balanced scorecard to track progress and measure success.

As the insurance industry continues to evolve, several questions remain that warrant further exploration and should be a deep area of exploration.

First, how can insurers balance the need for innovation with the regulatory and security challenges posed by new technologies while there is a compelling need to modernize the technology stack? Another concern is, while modernizing the system, how can insurers ensure that their transformation efforts are inclusive and address the needs of all customer segments? Finally, what role will emerging technologies such as quantum computing play in shaping the future of the insurance industry? By addressing these questions during transformation, the industry can better navigate its transformation journey and achieve sustainable growth.

CONCLUSION

The insurance industry is on the brink of a profound transformation, propelled by technological advancements, regulatory changes and ever-changing customer expectations.

Despite substantial investments, insurers often fall short in realizing the full potential of these technologies, underscoring the need for a strategic and integrated approach to digital transformation initiative. To meet their expected goals, insurers must create a strategic partner-led ecosystem to unlock growth opportunities, access complementary capabilities, and help customers reimagine their experience. Further, modernizing core systems and leveraging the latest technologies are vital to improve operational efficiency, effectiveness, data management, and overall business agility. Additionally, digital enablement through investments in digital platforms and emerging technologies is crucial for insurers to stay relevant and secure competitive advantage. Lastly, enhancing data and analytics capabilities will drive informed decision-making, personalized customer experiences, and innovative product development.

By addressing these key aspects of transformation, the insurance industry can unlock new growth opportunities, strengthen customer loyalty, and position itself for long-term sustainable success in the burgeoning marketplace.

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