Aite Novarica

FEBRUARY 2022

FUTURE READY

SEVEN PRIORITIES FOR THE INNOVATIVE INSURER

PREPARED FOR:

Hyland™

FEBRUARY 2022

FUTURE READY

Seven priorities for the innovative insurer

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INTRODUCTION

Insurance is an industry built on uncertainty. From a business perspective, insurers face an uncertain future due to spiraling operational costs, escalating regulatory pressures, increasing competition, and greater customer expectations. From a technology perspective, digitalization offers great potential, but at the same time, causes disruption in what traditionally is a risk-averse industry. Add to the equation the continued impact of COVID-19.

While digitalization to enhance the customer experience was the dominant theme of 2021, insurers' focus will shift in 2022 to digitalization that improves the insurance experience. They will use technology to enhance the customer experience with more self-service capabilities, improve ease of doing business for agents, and implement tools and applications to increase employee productivity. The insurance company that survives, and even thrives, in this period of uncertainty needs to embrace change and become the innovative insurer.

This white paper is intended for line-of-business owners, innovation leaders, and IT and C-level insurance executives and will cover seven digital themes across the value chain that will continue to move insurers along the path to innovation.

SOLVING THE CUSTOMER EXPERIENCE CONUNDRUM

Insurance companies have always struggled with how and when to engage with their customers. Despite all the progress made in recent years on knowing your customers better, most carriers fall short of providing a unified omnichannel experience. Legacy systems and siloed applications impede the ability to gain a holistic view of the customer across functional areas and geographies, hampering marketing from delivering consistent, relevant customer experiences.

Further complicating things, empowered consumers want to interact with a brand across multiple channels (e.g., call centers, websites, in-person, chat boxes, mobile devices, and wearables) on their own terms. But supporting multiple channels is only part of the equation. Regardless of the channel, customer experience is only as good as the content delivered. For insurance organizations to transform the customer experience, content must be dynamic, interactive, persuasive, and, most importantly, timely.

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Creating a customer experience that competitors cannot match requires three overarching elements:

- Having a holistic understanding of the customer
- Using that knowledge to define tailored products and communications
- Interacting with customers more effectively, with more personalized content

THE FORECAST IS CLOUDY

Within the last five years, insurers have gone from being skeptical of cloud computing to fully embracing a cloud-first mentality. Once viewed as a cost-reduction exercise, cloud strategies are now being driven to improve agility, increase speed to change, and provide access to new capabilities and an insurance ecosystem. According to an Aite-Novarica Group report published in June 2021,[1] three-quarters of insurers plan to expand their use of cloud computing in the next 18 months. Even the naysayers and nonbelievers are changing their views on cloud computing. As for the handful of carriers with no cloud computing capabilities, the majority plan to pilot or use these capabilities in the next 18 months.

Migrating both the front and back offices to the cloud is more than just carriers moving applications out of data centers and freeing themselves from managing the software; it is also about getting access to new capabilities. More complex analytical functions can be undertaken in the cloud, resulting in carriers delivering a more personalized experience.

Figure 1 shows the current and planned usage of cloud computing by business function and application.

[1] See Aite-Novarica Group's report Cloud Computing in Insurance: Current Adoption and Plans, June 2021.

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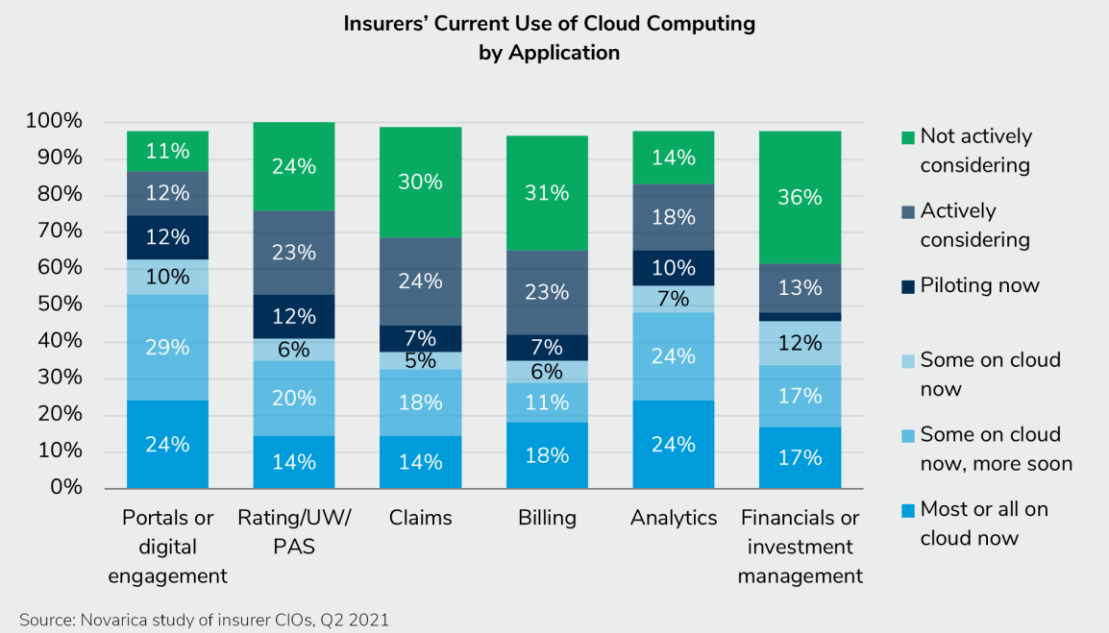
FIGURE 1: INSURERS' CURRENT USE OF CLOUD COMPUTING BY APPLICATION



THE EVER-CONNECTED INSURER

Despite the advancements in technology, in some regards, very little has changed in insurance over the decades. Insurance companies continue to use historical information to predict future loss severity and frequency rates to price their products accurately. However, the insurance industry is facing a revolution with the internet of things (IoT), which has the potential to dramatically change its business model, especially how it assesses risks.

Telematics and usage-based auto insurance have been around for over 10 years. While it continues to gain market share, it has not been the game-changer the industry expected. The biggest impact will be in property insurance, with increased adoption of smart devices—i.e., homes, offices, commercial buildings, and industrial installations fitted with sensors and devices that generate real-time data on hazards from overheating malfunctions to building material strength. Not only can water leakages or breakdowns be immediately recognized, but gradual deterioration also can be monitored to avoid substantial damages, bringing insurers into risk prevention rather than risk mitigation.

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From a life perspective, carriers are already facing major disruption with significant demographic changes, as people are becoming healthier and living longer. However, wearable devices, such as Apple Watches, are ushering in a new era in wellness monitoring. These devices can track sleep patterns, activity, heart rates, and even blood sugar levels. This data is invaluable to life underwriters as they identify the most appropriate rate for the insured. Premiums might even be calculated daily, with complete transparency to the insured, encouraging a healthier lifestyle and reducing premiums accordingly.

Insurance is still in the infancy of implementing and understanding the full value of IoT. But it has the potential to change every part of the insurance value chain, including how companies assess risk, and create new opportunities for how insurers interact with their customers.

PUTTING DATA AND AI TO WORK

Today, insurance companies are becoming data-intoxicated as they consume more and more data. But the true value of data lies not just in having it but also in being able to use it for fast, fact-based decisions that lead to real business value. This is why artificial intelligence (AI) has the power to be a game-changer for the insurance industry.

Today, most insurers have a team of data scientists using open-source language to develop machine learning algorithms. However, embedding these AI models into core systems and everyday processes has challenged many insurers. To put AI into action, IT and analytical teams need a repeatable and efficient process for creating and deploying AI and advanced analytics. In short, they must operationalize AI.

To be successful, insurers need to follow these four simple steps, also shown in Figure 2:

- **Accumulate:** Insurers must ingest both structured and unstructured data from internal systems, such as policy administration and claims management solutions, and external third-party data sources, such as aerial imagery, moving it into a central data repository.
- **Explore and build:** By using advanced analytics to explore the data to identify trends and patterns, insurers can find the insights they need to build the AI models.

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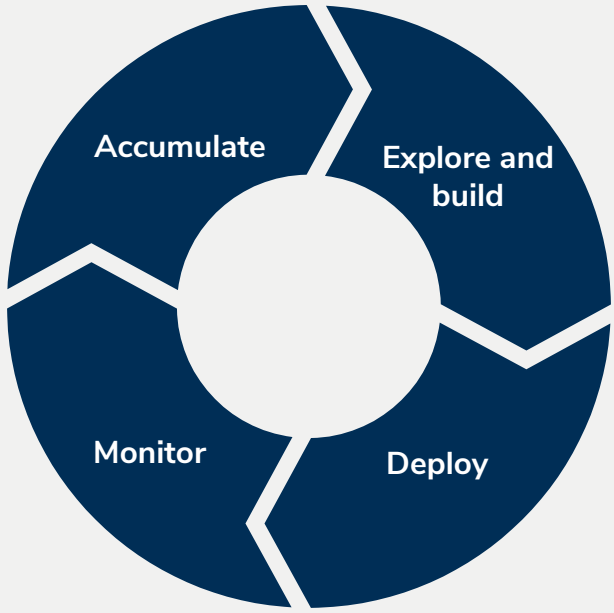
- **Deploy:** This is arguably the biggest hurdle. Before AI can be deployed, insurers need to define the business rules and parameter guidelines for triggering AI models, using runtime APIs for core systems.
- **Monitor:** Many insurers don't think about monitoring until it's too late. Once a model is in a production environment, it should be regularly evaluated to determine when it is time to refine, retune, or retire the model.

FIGURE 2: DATA AND AI ANALYTICAL LIFE CYCLE



Source: Aite-Novarica Group

RETHINKING LIFE INSURANCE UNDERWRITING

Life insurance underwriting is at an inflection point. With life insurance sales steadily declining, life insurers need to find ways to make it easier to issue policies. However, unlike property and health insurance, which are renewed annually, most life insurance policies are long-duration contracts. That puts greater emphasis on thoroughness and adequacy in life insurance underwriting.

In any highly competitive market, speed-to-issue is a significant differentiator. For life insurance carriers, this means rethinking the underwriting process while still protecting

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mortality and managing costs. At the heart of this transformation are new types of data, risk scores, and automation. The availability of APIs and cloud-based systems is making it easier for carriers to connect with customers' data and integrate third-party data. AI-driven predictive risk scores are being used for triaging and for deciding when to order additional medical information.

Another key factor in fast-tracking these initiatives has been the COVID-19 pandemic. This has forced many carriers to expedite their efforts and use electronic medical records (EMR), remote applications, and digital processes. Finally, agents and intermediaries have a strong interest in getting quicker underwriting decisions, even building underwriting capabilities into their own quotation engines.

Rethinking the underwriting process requires a balance of rapid adoption, experimentation, and building systems, processes, and roadmaps that allow flexibility for future improvements.

MAKING FIRST IMPRESSIONS LAST

The claims process is arguably the most important process within the insurance life cycle. It is often referred to as the moment of truth. How an insurer treats its customer during the claims process can have a significant impact on the long-term relationship, and first notice of loss (FNOL) represents the first opportunity for a carrier to make a lasting impression with its policyholders.

Transforming the claims process with new technologies is certainly not a new initiative. Many industry experts ascertain that digital FNOL and claims automation is now table stakes—everyone is doing it. However, the consensus is that what carriers are providing is not what customers are expecting from a digital claims process. There appears to be a huge chasm between what is possible and what claimants are experiencing. The good news is that insurance companies are now embracing digitization, sometimes out of necessity, with remote or virtual inspections. Also, the advantages of a digital FNOL benefit both the customer and the insurance carrier.

Figure 3 represents the IT infrastructure that insurance companies need to support an omnichannel digital claims process.

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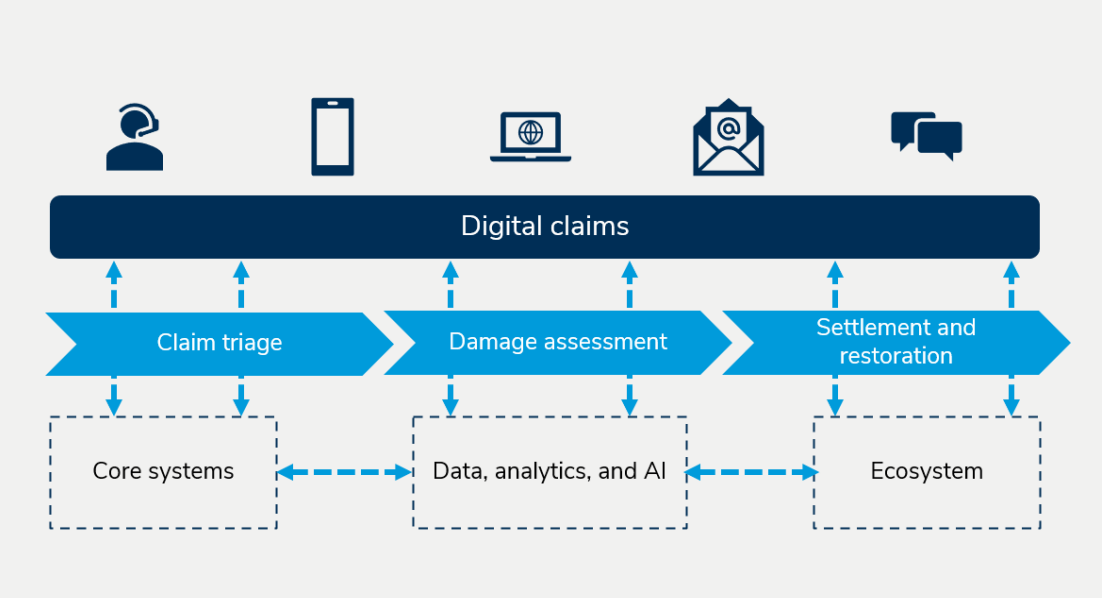
FIGURE 3: OMNICHANNEL DIGITAL CLAIMS INFRASTRUCTURE



Source: Aite-Novarica Group

To transform the traditional claims process into a truly digital experience, insurers need to think of the process from a customer perspective. A digital claims process should be an omnichannel experience, providing self-service capabilities and empowering customers, agents, and insurance professionals.

WINNING THE INSURANCE FRAUD RACE

It is generally accepted that 10% of all insurance claims are fraudulent. But insurance fraud is not exclusive to the claims process. It is prevalent throughout the entire insurance life cycle. In fact, a recent Aite-Novarica report[2] found a significant increase in underwriting fraud—an estimated 18% of life insurance and personal lines policyholders fell victim to identity theft (account takeovers or application fraud) in 2020.

While many view insurance fraud as a victimless crime, it impacts not only every insurance company but also every policyholder due to increased premium rates. The FBI estimates that insurance fraud costs between US$400 and US$700 annually in extra premiums for every American family.[3] This begs the question: Who is winning the

[2] See Aite-Novarica Group's report U.S. Identity Theft. Consumer Trends in Health, Life, and P&C Insurance, June 2021.

[3] "Insurance Fraud," Federal Bureau of Investigation, accessed January 20, 2022, https://www.fbi.gov/stats-services/publications/insurance-fraud.

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insurance fraud race? Fortunately, the answer lies in insurance companies adopting a multilayered approach that combines different detection techniques to identify both opportunistic and organized fraud. These techniques include the following:

- **Data visualization:** This technique enables insurers to identify patterns and relationships in data that weren't initially evident using basic business intelligence and reporting capabilities.
- **AI and predictive analytics:** Data scientists use data mining tools to build predictive models and machine learning algorithms that produce fraud propensity scores.
- **Network link analysis:** This technique analyzes a large volume of claims to identify organized fraud activities by modeling relationships between entities in claims to uncover hidden relationships among fraudsters.
- **Multifactor authentication:** As insurance companies deploy more digital initiative, ID verification, device verification, and ID authentication are becoming essential to meet onboarding and Know Your Customer requirements as well as to identify application fraud.

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CONCLUSION

In a highly competitive market—and against the backdrop of a global pandemic—it is vital for insurance companies to minimize inefficiencies and reduce losses to protect profitability. However, transforming into an innovative insurer is not easy and does not happen overnight. It takes time, careful planning, and these seven priorities:

- **Solving the customer experience conundrum:** Modernizing customer communication strategies to support an omnichannel experience
- **The forecast is cloudy:** Migrating both front- and back-office functions to the cloud to deliver an enhanced customer experience
- **The ever-connected insurer:** Using IoT data to better understand the risk and convert from a loss mitigation process to a loss prevention model
- **Putting data and AI to work:** Operationalizing data and machine learning models into core processes with a repeatable and efficient analytical life cycle
- **Rethinking life insurance underwriting:** Transforming life insurance underwriting with new data sources, EMR, predictive risk scores, and automation
- **Making first impressions last:** Embracing digital technology to optimize the claims process with automation and improving employee productivity
- **Winning the insurance fraud race:** Adopting a multilayered approach that combines different detection techniques to combat fraud across the insurance enterprise

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ABOUT HYLAND

Hyland is a leading content services provider that enables thousands of organizations to deliver better experiences to the people they serve.

Our content services solutions are some of the most flexible and comprehensive products on the market. Hyland provides secure, cloud-based content and digital process automation solutions across the life cycle of insurance processes, starting in the mailroom and extending across policy and customer service, claims, compliance, and back-office operations. These solutions are designed to unlock the value of content—inside and outside core systems—across the insurance organization.

Tailored for departments and comprehensive for the enterprise, Hyland is committed to the long-term needs of the insurance industry. Hyland has successfully helped more than 500 insurance companies transform processes that rely on documents, content, and people. Learn more by visiting Hyland.com/Insurance.

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ABOUT AITE-NOVARICA GROUP

Aite-Novarica Group is an advisory firm providing mission-critical insights on technology, regulations, strategy, and operations to hundreds of banks, insurers, payments providers, and investment firms—as well as the technology and service providers that support them. Comprising former senior technology, strategy, and operations executives as well as experienced researchers and consultants, our experts provide actionable advice to our client base, leveraging deep insights developed via our extensive network of clients and other industry contacts.

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