8 TRAITS OF NEXT GENERATION INSURERS

Hyland™

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Introduction

The insurance industry is at a tipping point. A next generation of insurer is emerging, disrupting traditional business models. Their approach is different: Instead of looking in the rearview mirror for how things have been done before, they are looking forward, breaking down the core elements of insurance and reinventing them from scratch. Shedding the constraints of legacy systems that inhibit the real innovation, these challenger brands are building future-proof business systems that will adapt to the changing industry dynamics. They also look beyond their own four walls to identify and provide products and services that resonate with today's digital consumer.

Next generation insurers have learned the importance of customer experience and speed of service from the tech giants. They understand that the proper application of technology and information can define success or failure in today's digital world.

Traditional insurers must adapt to this disruption or risk being completely displaced from the marketplace.

Getting there won't be easy. Traditional insurers face legacy roadblocks to next-generation success. These systems were designed for success in an earlier era, but now hinder their ability to adapt to the digital age.

Let's explore eight traits of next generation insurers — and what holds traditional insurers back from emulating their success.

WINNING IDEA #1

First principles thinking

WINNING IDEA #1

When traditional insurers create insurance solutions, they take something that was previously built or designed and add to it year over year — sometimes even generation after generation.

The end result does the job, but is likely inefficient and expensive to maintain, leaving the question: Does anyone have any idea why we're doing this? When insurers build solutions using analogies, iteration is confused with innovation.

First principles thinking reworks the problem from the ground up.

To truly become a next generation insurer, you must go back to the fundamental assumptions, or "first principles," to develop new products and solutions unencumbered by what has been built in the past.

For insurers, a first principles thinking approach starts by asking, "What business problem am I trying to solve?" or even, "If someone was inventing insurance today, what would it look like? How would it be different? Would we still use forms and contracts? Would we still perform underwriting and claims processing the same way?"

Reinventing an entire highly regulated industry would be a monumental undertaking, unlikely to occur any time soon. Still, some companies — Lemonade, Haven Life and Metromile are a few examples — have disrupted certain components of the industry by throwing out the old rule book.

Lemonade has reinvented the business model for P&C profitability, while Haven Life has greatly simplified the complex and time-consuming process for applying for life insurance. Both provide real-time or near real-time decisioning, with Lemonade touting that they can provide renter's insurance within three minutes, and Haven Life claiming to be able to process a life insurance application online within 20 minutes. And Metromile has revolutionized auto insurance with a pay-per-mile rate that is based on your driving habits.

For today's insurers to join the ranks of the next generation players in the industry, they must evolve from legacy thinking to first principles thinking.

WINNING IDEA #2

Preparing for the hyper-connected customer

WINNING IDEA #2

Today's insurance customer is hyper-connected. They are engaged in an omnichannel, always-online experience via mobile phones, desktops/laptops, wearable devices, connected cars, cloud-based voice services like Alexa and Google Assistant, and apps like Facebook, Instagram and Twitter. Because they are constantly connected, they expect immediate responsiveness and gratification.

Many insurers mistakenly believe that simply delivering a mobile app will address this need for innovation. But placing a new veneer on top of an antiquated set of business applications is not going to meet the demands of today's digital customer.

An old business adage says: "If you automate a bad business process, all you end up with is an automated bad business process!" The same holds true when trying to deliver modern customer interactions. By delivering mobile applications without a modern infrastructure and information systems to support it, insurers are simply iterating on a business model that was not meeting the needs of the customer to begin with.

Much like a new structure built on a crumbling foundation, insurers often face disastrous results by exposing system weaknesses across new channels that demand more of legacy systems than they can deliver.

Next generation insurers meet the real-time demands of the hyper-connected customer with a robust architecture of high-performance information systems, capable of scaling to the demands of the modern insurance customer. Their focus on modernizing infrastructure establishes a foundation from which to drive true innovation.
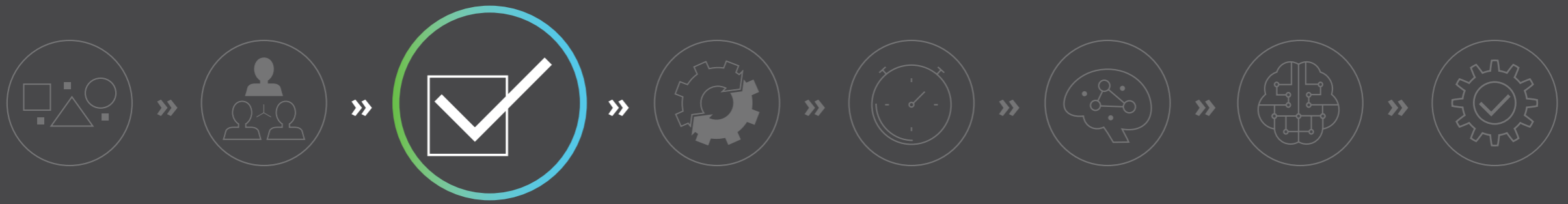
WINNING IDEA #3

Extending the value proposition

WINNING IDEA #3

Insurance customers are no longer satisfied with the organic products and services delivered by their insurance companies. Today's customers are asking "Yeah, you insure my home and car, but what else are you doing for me?" Today's customer wants more value and a more diverse "one-stop shop" set of offerings, many of which are not a core competency for insurers.

Insurance customers want additional products and services that run adjacent to their insurance needs and augment their personal lives, such as:

1 Guidance, advice and access to products and services that enhance their overall financial well-being, with offerings shifting as their life goals evolve over time.

2 Services that more deeply entwine insurers in customers' day-to-day lives, like travel and leisure services, budgeting, discounted buying services and money tracking.

In the past, insurers have spent millions in time, money and resources attempting to increase their value proposition by iterating on existing applications to create additional offerings from scratch. But many of these capabilities are already available through other service providers and do not have to be reinvented.

An example of a "co-created" value proposition is the airline industry. In an effort to add customer value beyond just providing airline reservations, airlines have partnered with organizations like bookings.com for hotel reservations, as well as car rental agencies, rather than trying to create this capability natively. Next generation insurers understand the value of integrating enhanced product offerings from other providers, and that the value chain need not (and should not) be developed completely in-house.

Next generation insurers also understand that their systems must be designed to be easily integrated. Unfortunately, most legacy systems are not. Many of today's insurance systems are more than 20 years old and were never designed to connect to third-party systems or providers. Next generation insurers are modernizing their infrastructure with platforms that quickly integrate with third-party programming interfaces.

This is the only way insurers can deliver the digital agility required to adapt to the needs of the customer and respond to competitive pressures.
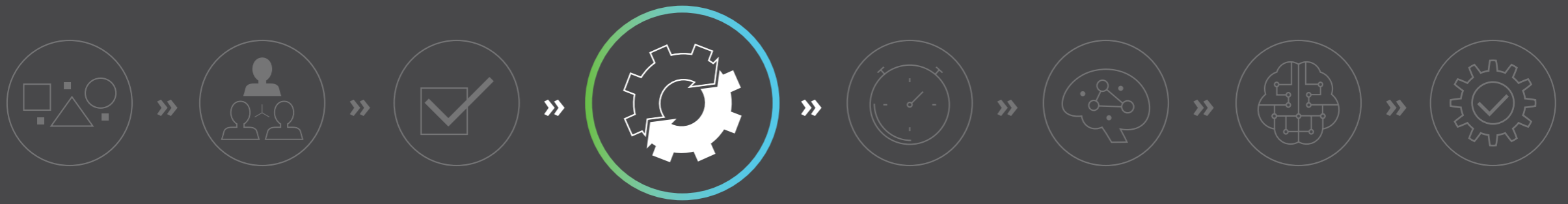
WINNING IDEA #4

Following the lead of the tech giants

WINNING IDEA #4

Historically, insurers competed on price and product, creating a marketplace in which the competition quickly became indistinguishable. When lowering premiums wasn't enough, insurers could introduce new products and capitalize on being first-to-market before the competition mimicked that offering to reestablish market parity. This leap-frog approach resulted in razor thin margins, making it difficult for insurers to maintain profitability and distinguish themselves from the competition.

If pricing and products are virtually the same across the industry, how can insurers compete for market share and wallet share? The answer: customer experience.

When it comes to customer experience, no one has created more disruption across all industries than the tech giants (Google, Amazon, Apple, Meta). Companies like Amazon have redefined the customer experience, raising the bar for all customer interactions.

Next generation insurers know that customer experience is today's competitive battlefield. Insurers who distinguish themselves along the customer journey will increase their retention and profitability, and, more importantly, ensure their long-term viability.

Delivering a positive customer experience requires changing culture, evolving from a transactional way of doing business to one that focuses entirely on the customer.

"A great customer experience isn't just about passing work down the path in a linear fashion. It's about creating an emotional experience," says Karlyn Carnahan, Celent's head of insurance for North America. "What are the tools you can use to help customers meet their goals and make them feel warm, valued and fulfilled?"

Delivering a positive customer experience requires a 360-degree view of a customer's journey, not siloed views through disparate business functions. To accomplish this, next generation insurers break down organizational barriers preventing them from becoming customer-centric organizations.

They also break down the barriers to information scattered across the organization. A true customer experience can only be delivered by a customer-centric view of people, processes and information.
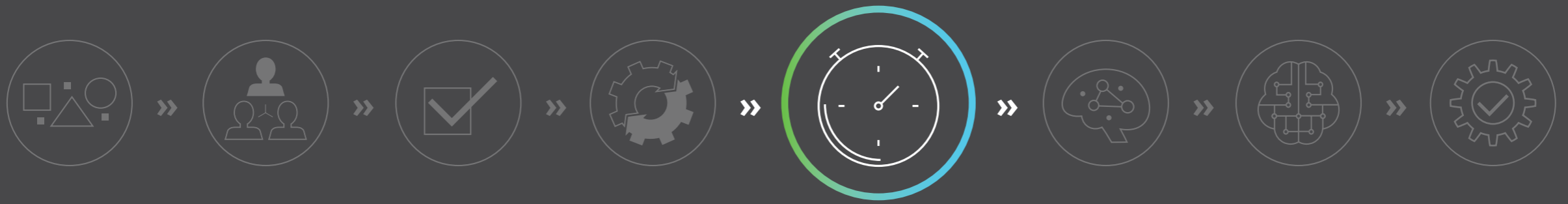
WINNING IDEA #5

Business at the speed of digital

WINNING IDEA #5

One of the primary challenges that insurers face in delivering a positive customer experience is their inability to quickly adapt to changing market dynamics. Customers who obtain real-time or near real-time responsiveness from the likes of Google and Amazon have come to expect that same level of responsiveness from their insurance companies.

Customers no longer differentiate between vertical industries. A positive experience received in one market is expected across all markets. So as an insurer, your competition is no longer the next insurance company, but rather any companies that exceed customer expectations.

Next generation insurers have learned to move fast to adapt to shifting customer preferences, quickly changing regulatory environments and adoption of the latest technologies. They are quicker at delivering individualized products to the market, and they are faster at satisfying customer service requests for those products.

NextGen insurers understand they can no longer take months or years to bring new products to market. Likewise, they realize they can't take hours or days to respond to service requests. In an age of instant gratification, with high expectations from a consumer who shows little tolerance when those expectations go unmet, speed of product delivery and speed of product service are defining tomorrow's insurers.
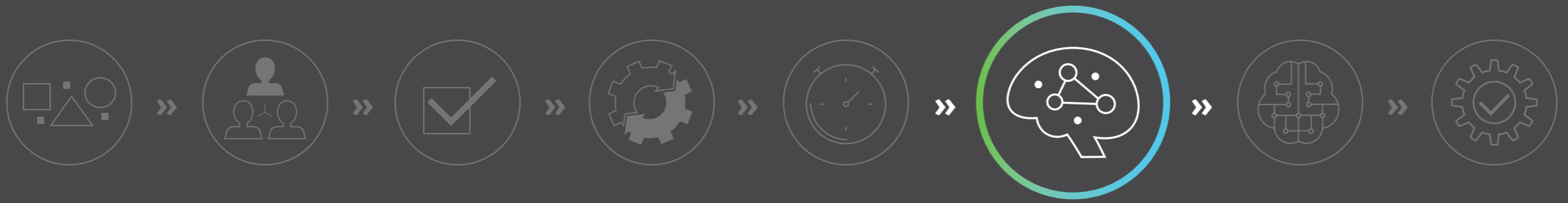
WINNING IDEA #6

Working smarter, not harder

WINNING IDEA #6

The next generation of insurers focus on speed and efficiency. They have learned that they can't scale cost effectively by throwing more workers at outdated business processes. Insurers must operate lean to bring down operating expenses, but they can't sacrifice the quality of business decisions in the process.

The knowledge base for decision-making is dwindling, with fewer individuals entering the insurance workforce. This means the quality of the underwriting decisions and the ability to control claims leakage are suffering. Also, claims frequency, severity, oversized verdicts and fraud are on the uptick, driving up caseloads. The amount of information that must be evaluated by underwriters and adjusters has exploded as well, increasing the time to underwrite policies and process claims.

At a time when the majority of the seasoned underwriters and adjusters are at or near retirement age, next generation insurers have learned to work smarter, not harder, in an environment that is increasingly resource and skill set constrained.

Next generation insurers rely heavily on process automation to capture decades of intuitive knowledge held in the minds of an aging workforce. They augment those automated business processes with machine learning and artificial intelligence to reduce or eliminate low-value and mundane manual tasks. The combination of automated business processes and AI creates a greater value proposition by supporting initiatives like straight-through processing and helps move other innovations to the forefront of insurance operations.

Next generation insurers do not leverage AI and process automation to completely remove human touch points from all insurance interactions. Rather, they use technology to augment human interactions where they provide the greatest efficiencies.
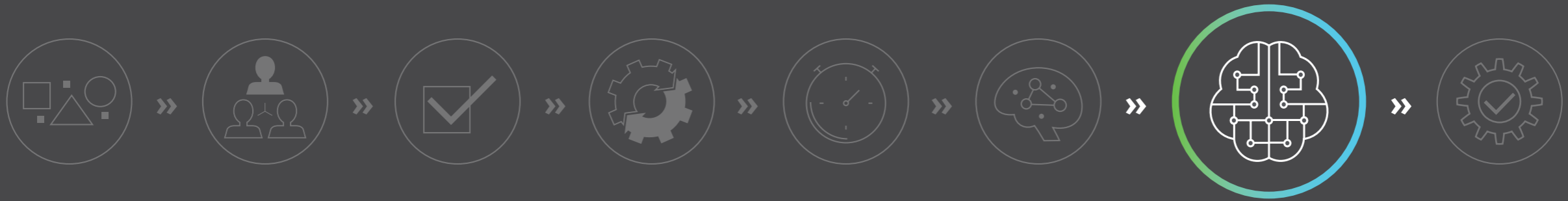
WINNING IDEA #7

Embracing information everywhere

WINNING IDEA #7

"Water, water everywhere, nor any drop to drink." In "The Rime of the Ancient Mariner," Samuel Coleridge was talking about a thirsty sailor, but the saying could be applied to the insurance industry's inability to deal with the flood of content and data pouring in and out of their organizations.

Yes, it's there, and yes, there is a lot of it. But exactly where it resides, how to search and retrieve it, and how to turn massive stores of content and data into actionable information … the answers to these questions elude many of today's insurers.

Next generation insurers embrace the fact that not much can be done to prevent the proliferation of content and data repositories across the organization. Rather than accepting that all information must exist within a single repository, these insurers embrace the disparity of data and content across the organization, and have learned to that leverage information "where it lives."

Despite decades of attempting to consolidate disparate repositories of information, next generation insurers understand that this level of control is often out of their hands. New and different repositories of information arrive through mergers and acquisitions, point solutions and executive mandates, or simply through the desire of the business to keep certain types of information at arm's length.

Rather than fight the proliferation, next generation insurers look to federation as a means of connecting the business to the data and content they require, wherever it resides. They also look to enhance and expand the descriptive information associated with that data and content, to gain greater insight and better serve their customers.
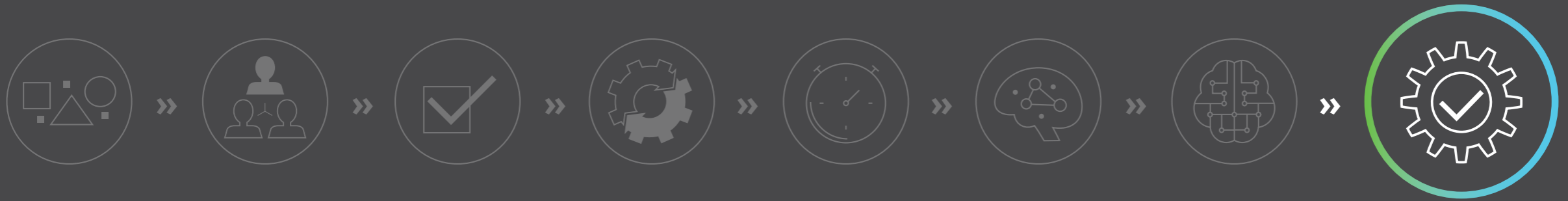
## WINNING IDEA #8

Future-proofing

WINNING IDEA #8

Insurance companies struggle to keep their core systems relevant and up to date in response to pressures from a changing industry. Many core systems are well over 20 years old and were never designed to be flexible or adaptable. Expensive and difficult to maintain, these monolithic systems force insurers into periodic, lengthy migrations in which entire core systems are upgraded, replaced or rebuilt from scratch. This is a source of significant disruption for insurers. In most cases, not long after the system has been replaced, the insurer finds it is once again obsolete and the costly process repeats.

Next generation insurers leverage systems assembled from individual functional services. This Lego-like approach provides insurers an expedited way of modifying existing applications, as well as quickly assembling new applications as needs arise.

Applications built on services exposed through standardized programming interfaces allow next generation insurers to effectively "future-proof" their business applications. As individual services become obsolete, these insurers simply replace that service with minimal impact to the overall system, and far less disruption to the business.

Furthermore, because next generation insurers have decomposed business functionality into granular services, those services can be reused in new applications, greatly reducing the amount of time needed to deliver new capabilities.
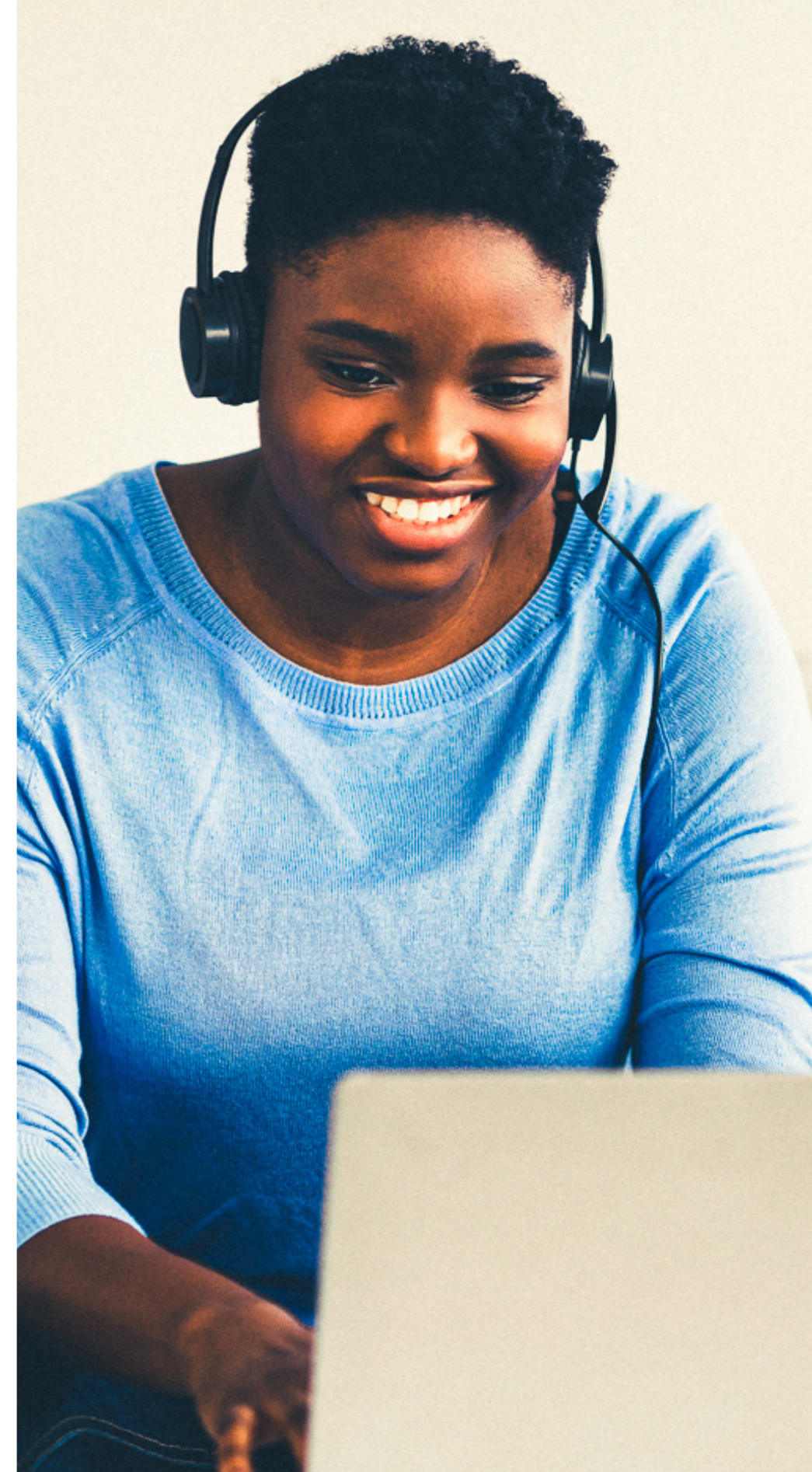
What inhibits traditional insurers from success

Why do traditional companies struggle to follow the lead of next generation insurers, or even to lead with innovation themselves? It is not from a lack of desire or in many cases not even a lack of funding or resources. Instead, traditional insurers often feel overwhelmed by the prospect of modernizing their systems. They often take a wait-and-see approach, moving reactively only when business models are already at risk because they fear disruption. In the age of digital insurance, doing nothing is no longer an option. Let's explore the drivers that lead to business stagnation and how insurers can overcome them:

Challenge #1:

LEGACY BURDEN

There is probably no greater impediment to innovation and first principles in the insurance industry than legacy thinking. So many initiatives have been met with responses like "We've always done things this way!" or "We can't do that because we're different!" or "If it's working, why change it?"

Like legacy thinking, legacy systems are a major impediment to innovation within the insurance industry. These systems stand as a hurdle that must be overcome in order to affect any type of real digital transformation and meet the demands of today's hyper-connected customer.

Attempting to integrate legacy systems into modern business applications also presents the risk of exposing security vulnerabilities that have been hidden or overlooked. As skill sets evaporate due to retirement and attrition, fewer individuals have the awareness of where these vulnerabilities lay and the risk they present.

Continuing to leverage legacy platforms also drives up costs, as scarce knowledge resources become more expensive to recruit and retain.

But the reality is that legacy systems remain in place because it's the path of least resistance in the short term. It's often easier and cheaper this quarter to do nothing, or simply continue to plug the leaks in the proverbial dam — even though the choice could lead to business-ending long-term consequences.

Replacing the plumbing costs more than plugging the latest leak, but it's necessary to survival when new insurance challengers flood the market. If traditional insurers envision joining the ranks of their innovative competition, they must minimize or eliminate the impact of legacy systems and build a modern foundation to support the fast-moving age of digital insurance.

Challenge #2:

GROWING PAINS

Today's insurers want co-creation of business value by tapping into the "API economy." This strategy is intended to broaden their value proposition with outside products and services that complement their own offerings.

The problem: Core insurance systems they are attempting to enhance can't be easily integrated. Again, internal legacy systems can be an insurer's worst enemy.

Years (or even decades) ago, when these business systems were built, they were intended as standalone business applications. Development methodology at the time involved incorporating all conceivable functionality into a single, monolithic code base.

This old-style thinking made those business applications very rigid and inflexible. With all functionality tightly intertwined, even the most minor upgrades or modifications required extensive amounts of time, money and resources. Insurers also had to worry that a change in one part of the application might break something in another part.

Developers may have envisioned that these applications would need to communicate with other applications with the organization, but never envisioned the day when they would need to communicate with service providers outside the firewall. Many insurers struggle to make their own systems communicate, much less extend that communication to third-party providers.

Traditional insurers need to emulate forward-thinking next generation carriers by evolving from a product mentality to a platform mentality. They must break down their business applications into business services exposed through APIs. Forward-thinking insurers need a "Lego" approach to constructing business applications. As insurers modernize to an API-first methodology, they will gain the ability to quickly and efficiently integrate virtually any service that is also exposed as an API and isolate any instances where security vulnerabilities might be exposed.

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THE VOLUME, TYPES AND SIZE OF INFORMATION

By now, insurers have learned that the promise of a single repository for all their content and information is a myth. Information resides all over the organization in volumes, types and sizes never seen before. This spike in content can largely be attributed to the fact that today there are over 6 billion mobile phone users in the world.

The amount of information insurers store, ingest and create is staggering, and it exists across the enterprise in multiple systems and repositories. Finding, retrieving and creating actionable insights from information is a task where traditional insurers fall short. Having the information is important, but if teams can't locate it when they need it, it's essentially useless.

Insurers are ready to abandon the age-old method of rip-and-replace, constantly swapping one repository for another, and embrace a future of federated search like their next generation competitors. This will empower today's insurers to leverage information where it resides, through technology connecting disparate information repositories. The net result: a single point of access to all information, regardless of volume, type, location or size.

Conclusion

Insurers face a number of challenges. The sector is growing slowly, regulations continue to expand and a higher demand for increased privacy are just a few of the factors influencing the evolution of the industry. But most importantly, customer preferences have changed. Today, the customer expects a frictionless information-rich insurance experience that leads with mobile but ultimately is channel agnostic and seamless. Digital-savvy millennials have replaced baby boomers as the primary buyers of insurance, and they demand speed and convenience in meeting their insurance needs

But many insurers continue to rely on legacy systems that are slow, inefficient and make access to data difficult.

Modernization and future-proofing new business applications while reducing or eliminating the reliance on legacy systems is how traditional insurers will keep up with competitors who are throwing out the rule book and aggressively pursuing digital customers.

It will take a different mindset to compete — one focused on the business problem that needs to be solved. It will also require the ability to find new ways to extend the value proposition outside the firewall. Those who succeed will deliver a superior customer experience and will deliver it fast. They will leverage the technology of process automation and AI to make better business decisions, increase efficiency, retain and grow their customer base, and ensure their long-term viability.

ABOUT HYLAND

Hyland is a leading content services provider that enables thousands of organizations to deliver better experiences to the people they serve. The Hyland platform provides secure, cloud-based content and digital process automation solutions across the lifecycle 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 of core systems — across the insurance organization.

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