

# HOW DIGITALIZATION AND INTELLIGENT AUTOMATION ARE TRANSFORMING THE INSURANCE SECTOR



Swiss Post Solutions

# THE RISE OF THE DIGITAL INSURER

Previously considered digital laggards, insurance companies have upped their game in terms of technology. But legacy systems remain a significant hurdle to overcome.

**Fifty-six percent of chief information officers of insurance companies say that “increasing operational efficiencies” is the key business issue for them to address across the value chain.<sup>1</sup> Intense market competition, compliance pressures and growing customer expectations are among the drivers pushing insurers to embrace faster and more efficient business practices. The opportunities have never been greater to harness new digital technologies to lower the cost of business, better serve the customer, and offer new, more tailored, products and services.**

Insurance is a data-rich industry with new sources of information growing exponentially, offering new and improved rating factors, and the ability to offer super-fast claims payments.

The main challenge for incumbent insurance carriers is not necessarily a lack of appetite for change, but the persistent drag of legacy systems. Whereas FinTech – or InsurTech – firms have little to prevent them from harnessing new, innovative technologies, existing industry players must find solutions to overhaul their historical, clunky and disjointed processes.

But the emergence of Intelligent Automation is presenting insurers with a solution to a previously unmanageable problem. By combining artificial intelligence (AI) with robotic process automation (RPA), optical character recognition (OCR), natural language processing (NLP) and other technologies, the boundaries of what is possible through automation are expanding. Meanwhile, sophisticated digital interfaces are continuing to improve the customer experience.

This White Paper will examine the main benefits associated with Intelligent Automation for an industry at an inflection point. As insurance executives look ahead to the next decade of growth and transformation within their organizations, it will help them cut through the noise so they can identify where best to extract value.



**15–20 years**

the average age of an insurance policy administration system



**up to 30%**

claims efficiency savings due to automation



**56%**

of insurance CIOs who say improving operational efficiencies is a key business issue for them



**60%**

of senior insurance executives think insurers lag behind other financial services firms in the drive for digitalization and automation



**90%**

of unstructured documents that are processed manually

Source: SPS Data, EY, KPMG

# THE INSURANCE INDUSTRY IS AT A TIPPING POINT

**Insurance companies have reached a critical point in their evolution where they must embrace new technology and overhaul outdated business processes or risk irrelevance. Indeed, 86% of insurers recognize that they must innovate at an increasingly rapid pace simply to retain a competitive edge.<sup>2</sup>**

The struggle to achieve organic growth in an environment characterized by low interest rates and overcapacity is focusing minds and budgets. For several years, insurers have faced pressure on both sides of the balance sheet.

Meanwhile, the rise of the aggregator has led to an intensely price-sensitive market, with customer churn rates increasing as brand loyalty dips.

Compounding these operating challenges is a more stringent regulatory environment that has evolved in the years since the financial crisis, adding to the cost and compliance burden on insurance firms. The need to become leaner and more efficient has driven a wave of mergers and acquisitions (M&A) within the industry as carriers seek the benefits of scale and a robust capital base.

 More than **80%**  
of insurance executives plan to digitalize and automate operations

 **86%**  
of insurers think they must innovate at an increasingly rapid pace to retain a competitive edge

Source: SPS, Accenture

# EMBRACING A VIRTUAL WORKFORCE

The use of spreadsheets and the manual re-keying of data between systems is a practice that is still widespread in many insurance firms. Indeed, the typical age of an insurance carrier's policy administration is 15 to 20 years old.<sup>3</sup> Such cluttered architecture is inefficient and costly to maintain, requiring manual intervention and re-keying information, causing bottlenecks and inaccuracies.

"It is the legacy that is limiting insurance companies' agility," says David Ziltener, Global Head of Go-to-Market Strategy at Swiss Post Solutions (SPS). "FinTechs that are coming up in the market do not have this legacy and so they are like speedboats, and that's a challenge for incumbent insurers."

Described as a 'virtual workforce', RPA has been around for a number of years but it is starting to gain traction as a non-invasive way of bringing together disjointed legacy systems.

The technology is projected to become a \$5 billion market globally by 2020, with a compound annual growth rate (CAGR) of over 60%.<sup>4</sup>

Software robots work by automating repetitive, rules-based processes, allowing them to pull data from where it is needed and to carry out whole processes. This includes opening up email attachments, completing e-forms, recording and re-keying data and performing many other tasks that mimic human interaction, accurately and in record time.

Insurers can use RPA to set up policies in one system, for instance, and migrate them to be sent out from another in a cost-effective and flexible way. For carriers, the benefits are obvious and include cost reduction, faster turnaround times and greater accuracy, while also improving service levels and compliance. Meanwhile, staff are freed up to focus on more complex, value-adding work.

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## Processes that are a good fit for RPA



Processes that need access to a number of different systems



Processes where human error is common



Rules-based processes that can be easily broken down into separate components



Processes that require minimal human intervention once started



Processes that do not need extensive exception handling



High-volume processes, or those that have significant peaks

Source: SPS

# MAKING AUTOMATION INTELLIGENT

Beyond automating existing processes, there are significant opportunities in using cognitive technologies – such as AI and machine learning – in conjunction with RPA and other systems. This is known as Intelligent Automation. Insurers will spend \$3.7 billion on cognitive software in 2018<sup>5</sup> as they seek to harness Intelligent Automation in document management, claims processing and customer management.

At the front end of the business, underwriters and brokers are utilizing an increasingly broad set of rating factors in placing the business and providing real-time quotations, reducing the need for lengthy customer questionnaires.

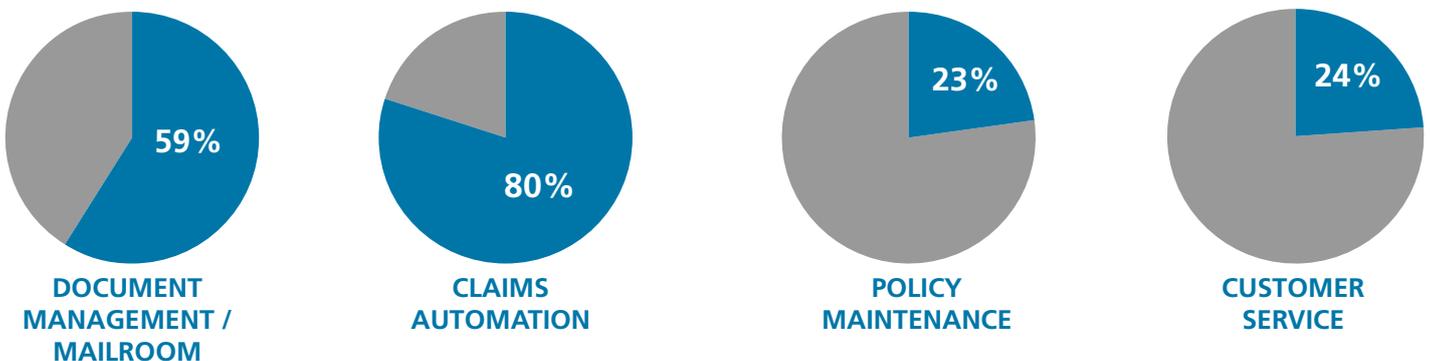
This requires the use of structured and unstructured data, with the latter information being increasingly sorted and categorized using AI.

In fact, one of the major benefits of Intelligent Automation for insurers is in document and data processing. Technology – such as optical character recognition (OCR), AI and natural language processing (NLP) – can take unstructured information supplied via chat-bots, text messages, emails, email attachments and paper documents. It scans, extracts and sorts the data into digital files, which can then be fed into automated processes involved in document management and claims processing.

This can result in huge efficiencies and cost savings because so much of the data insurers receive is unstructured. Yet, 90% of insurers still process unstructured data manually.<sup>6</sup> In contrast, Intelligent Automation can reduce document delivery times to the back office by 80%.<sup>6</sup>

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## Proportion of unstructured data in property and casualty insurance (%)



Source: SPS Data



Intelligent Automation is not just about replacing people with robots, it is the steady shift towards business process as a service (BPaaS). It is about using technology to automate the most repetitive, straightforward processes while retaining staff to handle everything that falls outside of that definition. Insurers will continue to strategically outsource tasks to high performance service providers.

The key is right-shoring, or selecting locations with a skilled workforce that can provide the balance of more efficiency combined with high-quality service. Crucially, these should seamlessly integrate into the technological systems to improve productivity further. In fact, automation can help enable customer interactions in a number of areas, such as moving data between different systems, while AI can be used to check the quality of the output.

## What is Intelligent Automation?

Intelligent Automation refers to a mix of technologies, including RPA, AI, OCR, NLP and predictive analytics, that are used in combination to automate processes previously completed by humans. It is 'intelligent' because through the use of advanced AI it can be self-directing and self-learning, with reduced human involvement. As a result, these technologies are able to complete ever more complex tasks.



Intelligent Automation can reduce document delivery times to the back office by

**80%**<sup>6</sup>

# THE BENEFITS OF INTELLIGENT AUTOMATION

## Faster claims processing

Claims processing is often described as the 'moment of truth', whereby insurance brands are judged on their promise to pay.<sup>7</sup> When a customer experiences a loss – often a difficult and emotional experience – they want the ability to report it easily, to receive regular updates on the status of their claim (using their preferred communication channel) and a quick and satisfactory outcome. The automation and digitalization of the claims process can help meet these demands.

It is therefore in the back office that automation holds the most potential for return on investment (ROI), with insurers' ability to communicate effectively and settle genuine losses speedily representing the key opportunity to increase customer satisfaction and lower costs.

By using robots to automate the repetitive tasks involved in claims management, such as identifying client files, checking documents for completeness, searching claims histories or finding cost-efficient replacement options, manual tasks can be reduced by up to 50%.<sup>6</sup> This shortens processing times greatly. Intelligent Automation can allow insurers to assess, triage and process straightforward claims in record time, reducing the total cost of a claims journey by as much as 30%.<sup>8</sup>

## Claims automation in numbers

 **30%**  
reduction in total cost of the claims journey

 **50%**  
reduction in manual tasks related to claims management

 **10x**  
faster processing times

Source: SPS Data, McKinsey



## Higher quality claims processing

One of the benefits of automation is that robots can work 24/7 without getting bored or tired. Importantly, they don't make errors, meaning the output is of higher quality.

Meanwhile, the ability to streamline the claims process frees up managers to use their skills to service more complex losses, or to investigate claims flagged by intelligent systems as potentially dishonest. Again, this can help insurers to provide a better quality claims service. Governance standards can also be reinforced among employees using Intelligent Automation solutions that track and learn from staff behavior.

Also, much of the technology associated with Intelligent Automation is scalable. This is important as it enables insurers to boost their resource capability during peak periods, such as renewals, or to effectively handle a surge in claims following a major event. And it means they can scale down when demand dips, meaning companies only pay for what they use.

Meanwhile, with fraud costing insurers up to \$2 billion in the UK alone, the industry has taken significant steps in recent years to clamp down on organized crime by collaborating and sharing claims and customer data.<sup>9</sup>

Intelligent analytics help detect spurious claims, spotting patterns that may be invisible to the naked eye and flagging potentially dishonest claims for staff to further investigate. Again this helps insurers provide a more secure and robust service.



**Governance standards can also be reinforced among employees using Intelligent Automation solutions that track and learn from staff behavior.**

## Intelligent Automation in the car insurance sector

A good example of Intelligent Automation is the work SPS is doing with a leading motor vehicle insurer. The insurance company receives more than 2,000 customer emails a day containing attachments in various file formats. Using its old OCR process, it was only able to categorize 30-40% of emails correctly, wasting valuable staff time sorting the remaining 60-70% manually.

The solution is a combination of OCR and machine learning, whereby the system observes and learns from how a member of staff handles an email that it has struggled to categorize. Through this application of machine learning, nearly 70% of all emails were being categorized correctly after just seven weeks.<sup>6</sup>

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# INTELLIGENT AUTOMATION AND CUSTOMER EXPERIENCE

**The threat from 'emerging disruptors' is compounding competitive pressures in the industry. Niche players have the ability to move quickly in the race to develop new products, services and distribution channels. With levels of consumer trust in insurance companies lagging behind other sectors,<sup>10</sup> the new-kids-on-the-block are promising to reinvent the insurance process, while offering high service levels and a conscience.**

As a result, there is a need to innovate in order to meet today's consumer expectations for 24/7 service.<sup>11</sup> With retailers like Amazon setting the bar, customers have a strong appetite for digital interactions and expect their carriers to augment traditional channels of communication with intuitive self-service options.<sup>12</sup>

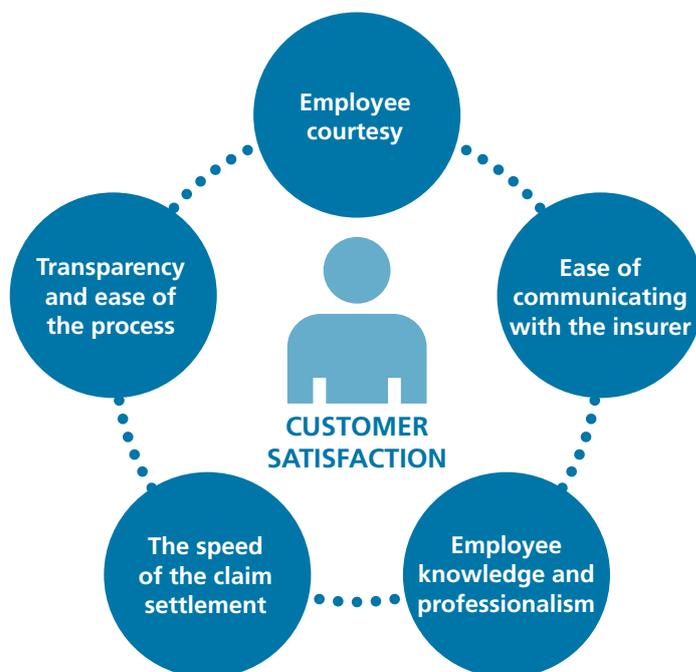
Insurers are expected to move towards an omnichannel approach to customer communication, where speed, accuracy and choice are key. Intelligent Automation can be the answer, with insurers offering webchat and automated insurance agents (chat-bots) via WhatsApp or Facebook Messenger, among other digital services, to complement more traditional communication channels.

Frequent, meaningful and personalized communications can significantly enhance customer loyalty. Policyholders desire more regular touchpoints with their insurance providers, and research suggests the growing availability of digital communication channels is warming relationships between customers and insurers.<sup>13</sup>

We are also moving towards a future where intelligent digital assistants will be able to resolve increasingly complex customer enquiries. Natural language processing allows them to detect, and adapt to, the personality and mood of the person they're interacting with, providing ever more sophisticated responses.

"Insurers can compete in two main areas," says Ziltener. "They have to be very innovative on the customer interface in digital channels and capturing unstructured data. And they have to be excellent in handling claims. It is about improving the customer experience, and being quick in order to keep costs down."

## The five qualities that drive customer satisfaction in the insurance sector



Source: McKinsey

# CONCLUSION: INTELLIGENT AUTOMATION – A TEN-YEAR STRATEGY

**Intelligent Automation can help insurers connect legacy systems, gather external data and automate what were previously manual processes, but it will take time and there are no quick fixes. Nowhere is this investment more beneficial than within claims handling, through its ability to create a better customer experience and fulfill the insurance ‘promise’.**

“Many insurers started transforming their legacy years or even decades ago, and many are still struggling,” observes Christian Ott, Director, Global Solution Design, Insurance, SPS. “It’s really not an easy task, irrespective of whether it’s a new in-house system they want to develop or a standard platform they’re looking to integrate. It’s hugely complex.”

“So it is about finding easier ways to achieve those goals,” he adds. “We’re not promising to replace their legacy, but instead are giving insurers tools that allow them to be more agile, and fulfill more of their client needs in a very short timeframe, with minimum changes required to existing systems.”

Digital transformation is a journey and one that will take time. But there are areas that can be tackled immediately and will set the insurer up for future success. A good place to start is mapping out and auditing the end-to-end processes and looking at how automation can make improvements in specific areas. Another area is turning unstructured data into structured data. Once that has been done a whole new world of possibilities emerges.

The key to success is getting the right mix of technology and people. This could involve automating some parts of the process, while right-shoring other parts to high-quality service providers. What SPS offers is the highest levels of organization, precision and quality at every stage of the process from in-bound document capture, through to customer interactions. ■

## Key steps for digital transformation

- |  |   |
|--|---|
| <b>1 Audit and analyse the systems and processes</b> | Understand and audit the key processes. Decide the right mix, i.e. will you use RPA for some processes and outsource/rightshore others.                             |
| <b>2 Structure the data</b>                          | In three months SPS can structure 80% of a client’s unstructured data using Intelligent Automation.   |
| <b>3 Focus on the people</b>                         | It is important to train and manage key personnel. People remain the key to technological change.   |
| <b>4 Start early</b>                                 | Digital projects can be completed in stages, trials and proof of concepts should be started now. Digital transformation is a journey, it is important to get going. |
| <b>5 Consider working with a partner</b>             | An experienced third party can be the key to making digitalization a success.   |

Source: SPS

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