



Digital Transformation In Life Insurance Is Here. —Are You Ready?

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Insurers understand risk better than most companies, and they recognize the risk of disruption by technology. The pandemic has laid bare the fragility of many systems that are dependent on face-to-face interactions. Meanwhile, new generations of consumers are demanding a digital-first experience. Insurers were deeply involved in digital transformation before the coronavirus, but the economy's current state has accelerated their efforts.

The insurance industry is not known to react quickly to trends. Why should it? Many of the leading insurers have been in business for more than a century and have been well-served by their skepticism of the latest fads. Yet prepared for the future with robust institutional knowledge and regulatory experience, as well as positive cash flows, insurers are building out their digital services to use artificial intelligence, data analytics and scalable solutions to remain competitive.

Digital transformation can be a confusing and expensive process. This guide aims to help insurers navigate this profound change's critical parts, so their organization is better prepared to face the future.

How Digital Transformation Lowers Costs

Insurers are turning to innovation because it has real effects on financial performance. A recent Bain & Company survey of life and property & casualty insurers found:

- Those who lead in digital transformation were in the top 10% in terms of premium growth, profitability, innovation and customer loyalty.
- 90% of digital-first leaders leveraged advanced data analytics
- 57% of leading insurers have automated claims triage systems
- More than half of their customers use self-service hubs
- An average 46% lower handling cost per claim from P&C insurers that employ omnichannel first-notice-of-loss processes

The effect of the transformation has been lower policy application costs and claims handling expenses, as well as better customer outcomes. The power of digital transformation is apparent with large auto insurers that have moved to a direct-to-consumer model. GEICO and Progressive captured nearly 92% of all premium growth in the past year, according to J.D. Power. It estimates that the lower commissions and

administrative expenses give these carriers a 10-percentage point cost advantage over exclusive and independent agent carriers.

Digitizing business processes can deliver significant near-term financial gains from reduced costs, lower error rates and increased customer satisfaction. McKinsey & Company estimates that insurers will eventually automate up to 60% of their back-office operations. These technology upgrades have a powerful impact on costs.

The COVID-19 pandemic has accelerated digital transformation already happening at major life insurance companies. In January 2020, before the pandemic, 36% of Americans who didn't currently own life insurance said they intended to purchase it within the next 12 months. In May, 53% of Americans expressed a heightened need for life insurance because of the coronavirus, according to LIMRA data.

“McKinsey finds that technology has helped digital-first P&C insurers shrink their expense ratios to almost 40% lower than traditional counterparts.”



Many of those life insurance policies, especially for term life insurance, were sold online. For example, more than half of Massachusetts Mutual Life Insurance Co.'s policies are sold through a digital platform and 90% of Manulife Financial Corp.'s policies can be bought digitally, according to S&P Global Market Intelligence.

Why Stakeholder Buy-In

Is Key to Digital Transformation

No initiative will go far in any company without support and enthusiasm from the C-suite. The digital transformation strategy must connect to the insurer's overall goals, or it will be viewed as something secondary to the mission, not core to the insurer's future. Digital transformation is not some project for the business; it will be the business's primary driver in the future.



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Digital transformation projects must be customer-centric. Automation efforts are futile if they lead to more dissatisfied customers. Focus on the customer experiences and all the other positive effects of transformation, such as increased efficiency and new revenue streams, will follow. LIMRA finds that more than one-third of Americans (34%) go directly to the company's website when researching life insurance.

Insurance executives need to design a digital transformation strategy that fits their business strategy. For example, an insurer that aims to be the low-cost provider will have a different digitization approach than an insurer that maintains profit margins through outstanding customer service. Strong project management, good governance, and transparent communication are keys to building digital transformation support across the organization.

Decision Point: Platform or Point Solutions

Digital transformations raise big technology questions. When it comes to choosing the software and infrastructure that fits the insurer's business strategy, they must consider whether they want a platform or a point solution.

Each option has its pros and cons. Platforms allow insurers to provide a robust foundation for any number of applications and can be rolled out widely across an organization, but not every solution on the platform may be best-in-class. A point solution fixes a specific problem well, but may limit the insurer's flexibility and scalability if it uses a basket of point solutions.

A majority of insurers still use legacy point solutions that can hamper their ability to move fast, innovate and adapt. Point solutions are especially prevalent when it comes to claims systems, but less so in billing functions. That's not to say that all point solutions are inadequate for digital transformation, but it depends on the insurer and technology stack. However, as the future evolves, these point solutions must change with it or leave insurers disadvantaged. Maintaining an inefficient point solution can often cost insurers more than the solution's development and deployment.

More software makers are building integrated platforms rather than point solutions. As technology continues to advance with artificial intelligence and mobile applications, a platform may be more suitable for digital transformation than a point solution.

Moving More Than Data to the Cloud

Like many businesses, more insurers are transferring their technology infrastructure to the cloud. The business case has changed from one involving cost-effective data warehousing

to a discussion of product strategy. Developing products in a cloud-based environment with software-as-a-service applications can allow insurers to be flexible and scale efficiently. Cloud infrastructure enables insurers to build business applications that are microservices and offer those products as part of new business models and services.

More than 70% of insurers have embraced cloud computing, according to insurance technology research firm Novarica.

The range of products created in a cloud environment helps insurers establish new markets and partnerships. Opportunity always comes with risk. Cybersecurity will be of paramount concern as insurers face more cyberattacks and increased regulation around customer privacy and data in the U.S. and worldwide. Insurers will need to have vendors with a proven track record of security and reliability.

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APIs Will Drive Insurance Product Innovation

Application programming interfaces (APIs) can provide insurers more speed as they innovate, build partnerships and bring new products to market. A well-constructed API can lower the cost of integration, allow rapid development of products, enhance security, improve customer service and become a potential revenue source from partners.

From Amazon to Apple to Facebook to Google, every major technology company creates APIs to build an ecosystem of third-party developers and apps. Insurers can use the same strategy to gain market share and lower overhead costs.

Celent forecasts that APIs will be the only way insurers will remain competitive over the next five years. The research firm recommends insurers create an open API, redesign all their products to be compatible with the API, hire talent to manage the API and focus on recruiting partners to use the API. Insurers think of APIs as a distribution channel now, but they may quickly become the only channel soon.

Mobile Readiness for Insurance Products Is a Must

A mobile-ready product is becoming table stakes for insurers. More investment in mobile design has helped P&C insurers improve customer satisfaction with digital service and shopping experiences this year, according to J.D. Power's 2020 U.S. Insurance Digital Experience study. Nearly 75% of insurers provide a mobile app to their customers to manage their policy and claims information.

The insurer's brand and mobile brand are increasingly merged. Customers want to access their data and service their policies on-demand. That means that mobile apps should be able to handle more core insurance functions, such as rates, quotes, issuing, claims and billing, and insurers should have the technology infrastructure to support those features. Insurers that differentiate their mobile experiences can build a competitive advantage in the marketplace.

Artificial Intelligence Will Reshape Insurance

It's early days for insurance and artificial intelligence. But in many ways, the future is already here. In 2016, insurance startup Lemonade's chatbot settled a claim within 3 seconds. P&C insurers now frequently use machine learning models to rapidly assess damages and predict the repair costs based on automated historical data analysis. Insurers continue to develop AI applications for claims, customer service, fraud detection, marketing and underwriting departments.

Artificial intelligence has the potential to not only to automate insurance, but completely alter its business model and cost structure. McKinsey estimates that by 2030 manual underwriting

won't exist for most personal and small-business products offered by life and P&C insurers. The rise of 3-D printed buildings, self-driving cars and robots to handle the most dangerous jobs will reduce the risk to human lives, making underwriting easier. Meanwhile, AI systems will continue to improve their risk-assessment capabilities as they keep processing terabytes of data each day.

The power of an underwriting AI will transform life insurance and annuity companies. Insurers may modify underwriting guidelines to accelerate application processes by having AI

use electronic health records and wearable data as substitutes for medical exams. Meanwhile, AI will leverage third-party data and analytics to continue to hone underwriting guidelines.

The future won't rest because AI is always working. Insurers will continue to push forward with their digital transformation initiatives as consumer tastes, especially for younger customers, change. Finding the right partner to help in all the critical areas of digital transformation—from APIs to cloud computing to machine learning to mobile apps—will define insurers' financial success after the pandemic and beyond.

Bringing It All Together

Life insurance and annuity providers should accelerate their digital transformation initiatives in the face of economic uncertainty. Not only do these efforts lower costs, but they can also future-proof an organization. When stakeholders are aligned and the critical technology questions are answered, insurers are on better footing to deal with new competitors and gain market share. By embracing AI, cloud computing, mobile apps and APIs, insurers can truly transform how they do business.

Navigating technological change on this scale can be daunting for any organization. Ebix collaborates with its life insurance and annuity clients to build innovative, workable and customized solutions. Contact us at the email below to learn how we can help your company move faster.

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About Jeff Hasty

As the Vice President of Strategic Business Development for Ebix, Jeff brings over 35 years of industry experience in operations, marketing, research and education working for a leading industry carrier and as an executive with LIMRA LOMA before joining Ebix. At Ebix, Jeff has helped Fortune 500 insurance and financial services companies gain a competitive advantage with superior performance through integrated technology solutions. He is a recognized leader in the industry and at formalizing e-business services to drive growth and digital transformation for enterprises of all sizes.

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