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Invisible Underwriting

A Non-Negotiable for Insurers in the Next Normal

An Infosys Consulting Perspective

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Introduction

Digitization is the watchword for success in underwriting, enabling touchless customer experiences as means to improved profitability for insurers. COVID-19 has exacerbated the traditional challenges posed by legacy systems, poor data quality and lack of digital customer touchpoints, exposing significant operational gaps in incumbent insurers.

While insurers may have dipped their toes into digitization in the past, their transformation programs must now be accelerated to innovate, stay competitive, and drive growth.

Today's empowered insurance customer no longer possesses the loyalty they once had, and in the next normal, financial success will be directly linked to the experience they receive at critical digital touchpoints. Invisible underwriting – shrinking the buying cycle to a point where it becomes completely invisible to the customer – will be non-negotiable.

In this POV, we highlight how invisible underwriting can be a game changer in this newly digital world and offer our unique approach for digital transformation that insurers can follow on their journey to this aspirational state.

Invisible Underwriting: An Overview

Quality underwriting is the backbone of sound insurance practice. However, underwriting can also traditionally be slow, expensive, and frustrating for customers.

Redundant paperwork when applying for multiple products, invasive medical exams for life products, and long cycle times can negatively impact customer experience. Insurers need to ensure the disciplines of underwriting remain intact, but at the same time create a less invasive and simple process for today's discerning customer.

Invisible underwriting aims to shrink the buying cycle to a point where it becomes completely invisible to the customer. In an ideal world, this would allow insurance companies to issue a policy in real-time at the point of sale at an individualized price. For many insurers in certain industry segments, this may be a purely aspirational state. For instance, invisible underwriting in life insurance is relatively easy to achieve for simplified products, such as Term, Final Expense or Accidental Death. Similarly, commercial lines carriers are looking at providing straight through processing for Business Owners Policy (BOP) and certain standard professional liability products. With the right technology and partners, it is possible for many insurers to get close to this ultimate end-goal.

What are the benefits of invisible underwriting?

In a customer-driven world, invisible underwriting is a way for insurers to digitize processes that are currently manual, minimize face-to-face interactions, and significantly reduce cycle time for underwriting decisions. Some of the key benefits, to both customers and insurers, can be seen in figure 1. Invisible underwriting will set the stage for future innovation in the insurance industry, shifting product sales from high engagement to a seamless and smooth customer experience.

FROM	TO
1. Agent driven Channels	**1. Agent and Direct-to-Customer (D2C) Channels**
2. Minimal Digital Touchpoint with Customers	**2. Omni-channel Customer Experience**
3. Traditional Data Sources	**3. Emerging and Newer Data Sources**
4. High NIGO Rate	**4. Zero NIGO**
5. Traditional Underwriting (~20 - 45 Days)	**5. Automated/AI Driven Straight Through UW (Minutes/Days)**
6. Legacy Technology Ecosystem (100 - 150 Apps, 2000 - 4000 Batch)	**6. Modern & Simplified Tech. Ecosystem (<10 Core Apps)**

Figure 1

Invisible Underwriting: Why Now?

More than ever, insurance companies are operating in a highly challenging and competitive environment, one that is driven by industry cost pressures, a wide array of customer choice, insurtechs, and the disruption of COVID-19.

In the past, digital was an appendix, an add-on to the distribution channels we have in the industry which are mainly broker and agent driven.

Now, new digital breakthroughs and advancements are forcing carriers rethink underwriting. Insurers must find ways to work more efficiently and reduce customer acquisition costs, while at the same time providing faster, better service to their clients. Some key drivers for invisible underwriting are outlined below.

Analytics-driven risk assessment

Advances in access to health and customer data (such as wearables and electronic health records), IoT and Telematics (connected cars and homes, self-driving vehicles) and public-sector data (worker-safety and health) are allowing insurers to make data-driven decisions that reduce risk exposure, as well as gaining unprecedented insight into operations to realize efficiencies.

Digital and real-time experiences

For digitally savvy millennials (83% of whom text more than they talk), the use of 24/7 digital channels to receive an insurance quote or submit a claim is infinitely preferable to a branch or office visit; less than half in the 25-44 age group prefer to buy-in person through an agent. The likelihood of prospects buying a policy also increases to 90% (from 70%) as the underwriting and application process gets closer to real-time.

Simplified and automated operations

With ongoing cost pressures to insurers, particularly in the context of COVID-19, there is a significant need to simplify and automate existing operations for time and cost efficiencies; currently, it takes an average of 10-18 months to introduce new products to the market. Additionally, life insurance carriers are looking to simplify the purchase process, which causes major friction in adoption and can result in a high abandonment rate. Carriers should be looking to embrace agile, adaptive, and analytics-driven underwriting platforms that eliminate the need for expensive medical tests and exams.

Accelerated innovation through insurtechs

Even before COVID-19, insurtechs were disrupting the space of large insurance carriers, with over $5bn investment in the industry since 2012. These disruptors can be considered attackers or enablers to existing carriers; for many incumbents, there is a focus on partnering with insurtechs to modernize and improve their approach, allowing them to accelerate innovation and digitization.

Personalized and differentiated coverage

There is a shift towards providing personalized, revenue-generating, value-added insurance plans to serve customer interests more effectively. Usage Based Insurance policies (such as Pay As you Drive and Pay How You Drive) offer numerous benefits, and not just to the customers who experience lower premiums; attracting low-risk drivers, enhancing customer loyalty, reducing claims costs and increasing the number of potential touchpoints are all beneficial to insurers.

Competition from emerging non-insurers

Non-traditional planners like Google and Facebook, armed with extensive proprietary data sets, are emerging as competitors to the incumbents. Brands themselves are also testing the market; for example, auto makers such as Tesla include insurance in the purchase price of the car, and IKEA Group offers insurance to 2.5 million members of the company’s loyalty club.

COVID-19 and the “art of the possible”

With so many digital breakthroughs and advancements, the aspiration for insurers should be to issue a policy in real-time at the best rates, particularly as consumers increasingly demand remote, quick and seamless interactions in light of the pandemic.

COVID-19 has been the trigger to accelerate these initiatives by showing the “art of the possible.” With insurers and underwriters forced to work in a completely virtual environment, the pandemic has fundamentally broken down the mental barriers to change that might have otherwise taken years to overcome. It is the insurers that take advantage of this disruption, and fundamentally overhaul their underwriting process, that will not only survive the pandemic but thrive in the next normal.

A Journey to Invisible Underwriting

Companies that successfully transform underwriting – and, more broadly, transform the insurance purchasing journey – have four pillars in common: they create new digital and engaging experiences for customers, overcome legacy technology, incorporate analytics-based decision making, and use insurtech driven by innovation. These can be seen in figure 2.

Future underwriting needs to be reimagined considering 4 key pillars of digital transformation

Digital and Engaging Experiences
Enhancing customer, agent/broker, employee interactions and their experience through **Digital Capabilities**

Simplified and Modernized Core
Modernizing **core insurance processes and platforms** using latest technologies and COTS packages while boosting operational efficiencies with better work flows

Analytics Based Decision Making
Driving innovation across the value chain by **insights driven decision making** through Data, Analytics, AI, ML

InsurTech Driven Innovation
Innovating and transforming by leveraging a **disruptive ecosystem of Insurtechs**

Figure 2

Insights to Success

These 4 pillars are a critical part of any digital transformation program but achieving them is a complex task. During our work with insurance clients to transform their underwriting, we take several steps to ensure the program is a success:

1. **Take a top-down, business-driven approach based on strategic vision**
2. **Consider the key foundations**
3. **Create and execute against an actionable plan**

1

Take a top-down approach

Companies need to deeply understand how the departments interrelate and how individual systems work within the context of the rest of the organization. To ensure this happens, insurers must take a business-driven approach to the project and look at how invisible underwriting fits into their wider strategic vision.

Maintaining momentum, resourcing, and conviction requires true sponsorship from the executive team; treating the effort as a pilot program will not be conducive to true innovation. Executives need to be convinced that invisible underwriting represents a fundamental shift in the way they operate, and without conviction and regular communication from the top, the program will struggle to get traction.

2

Consider the key foundations

Data

Every digital transformation journey, including invisible underwriting, relies on data at its core. However, many incumbents have a high rate of Not-In-Good-Order (NIGO) resulting from a variety of reasons, such as applications being submitted with missing information and data being re-keyed. As part of their journey, there needs to be a new emphasis on data governance. But data governance doesn't just mean more data; it means collecting, extracting, enriching and correlating information to derive meaningful insights. For example, in life insurance, insurers could consider a number of new digital sources of health data, ranging from electronic medical records to new and innovative sources like telemedicine, used to conduct interviews and visually measure the BMI of applications. Similarly, large complex risks in commercial lines would require assembling a diverse set of information like construction type, occupancy, location and exposure from new external sources, in additional to traditional data sources.

Technology

Legacy system modernization is a long-term effort which requires a significant amount of time and cost. As a result, any new digital underwriting strategy should be intrinsically linked to long-term business plans; leaders must move away from thinking about how to apply point-solutions in the short-term, and consider their boardroom's long-term goals, focusing on solutions that explicitly deliver on elements of this strategy. This might not always mean a complete overhaul; we often work with clients to design a modern and digital experience that integrates with current technology systems, rather than replace everything and start from scratch.

Processes

There are several existing processes that need to be considered when planning a digital transformation program in underwriting. These might include:

- Application intake: Streamlining this process to be simple and intuitive.
- Risk assessment: Establishing robust audit and risk controls, including automated risk assessment & aggregation and real time dashboards.
- Decisioning and pricing: Using simulation, modeling, and automation to enable self-serve capabilities and reuse of structured models.
- Bind and issue: Digitizing paper files and analog processes with the use of electronic or voice signatures and electronic delivery of policy documents.

People, skills, and training

A dedicated, cross-functional team is required to deliver a successful change transformation program, including invisible underwriting. The team needs to be jointly accountable for program objectives, with some portion of compensation and career progression tied to the broader program's success.

Change management should also include agent-driven channels; given many agents' long-standing use of paper application forms, new digital journeys are sometimes at odds with the architecture of current systems and require significant behavioral and cultural changes on all sides. Where relevant, insurers must invest in change management, communication, and training to promote agents' and advisers' adoption of new interfaces. Underwriters should be positioned as change agents to drive adoption of invisible underwriting by distribution channels.

3 Create and execute against an actionable plan, and take advantage of quick wins

Many large carriers are still at the very start of their transformation journey. For our clients, we suggest starting small and taking an incremental journey to invisible underwriting, with an eye on the bigger strategic vision. For example, roadmaps and other plans should focus on demonstrating clear wins for each quarter, and longer-term initiatives such as legacy system migrations should be broken down to fit this schedule. Bite-size changes need to be delivered and then rapidly course-corrected if something is not working.

Best Practice Examples

Leaders in the industry are already working with us on their journey to invisible underwriting. Here are a few examples of building best-practice programs.

Business driven underwriting modernization for a top mutual life insurance carrier

Challenge
Our client embarked on a strategic initiative to transform new business risk selection and underwriting of selected products. Infosys was engaged to develop an actionable business driven technology roadmap based on forward looking business capabilities, and design the modern technology foundation, including data, rules, and integration.

Solution
We established a clear direction and strategy with industry perspectives to achieve their desired business outcomes. We helped them achieve 30-40% in cost reduction, accelerated underwriting, reduced cycle time, better operational reporting and analytics, organization alignment, and a simplified and modern technology foundation.

Reimagined the risk management workbench for a top personal lines carrier

Challenge
Our client was working with outdated technology and offering a disintegrated customer experience, using multiple systems to access information. Their non-centralized and legacy reports were causing data challenges, decision delays and confusing multiple visualization.

Solution
We created a digital underwriting workbench with a 360o dashboard and intelligent workflow, a one-stop access for case and policy information for faster underwriting decisions, and just in time delivery information.

Conclusion

The imperative for invisible underwriting stems from the need to expand the scope of underwriting as a process, into engaging the customer beyond the buying experience of an insurance contract. This experience commences the relationship element which adds layers to the intangible insurance product. Capabilities like jet underwriting makes a beginning, and the logical expansion is invisible underwriting.

In this rapidly changing business and economic landscape, there is a growing realization that underwriting is a core area for digital enhancements. Invisible underwriting is an aspirational state for insurers, in which they offer a seamless and undetectable underwriting process to their increasingly digital customers. With rapid advancements in AI and automation, as well as the boom in insurtechs, incumbents can completely transform their operations to compete in the next normal.

Like all transformation programs, changing legacy technology and complexes processes is a challenging and long-term project. However, through incremental steps, a business-driven strategy, and a focus on the 4 pillars of digital transformation, carriers across the different industry segments can quickly achieve their own unique vision of future underwriting.

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