DIGITALIZED LIFE INSURANCE

How life insurers can realize value from digital

Anosh Pardiwalla
Angat Sandhu
Leonard Li
Graham Harvey
ACCELERATING VALUE CREATION FROM DIGITAL INITIATIVES

Across a range of industries, the rules for building a successful business are simple: identify customer needs, build solutions to meet those needs, distribute — and then repeat. This cycle has become shorter with the advent of digital solutions. Leaders have started to anticipate customer needs, build and launch solutions rapidly, and continuously modify them for the next set of needs. To do this, they have adopted a customer-first mentality based on digital technology. Data analytics drive actionable insights, while the supporting technology and operational foundations enable them to react quickly to changes in markets and customer behavior.

Life insurance companies, however, have failed to keep up with this progress. Many didn’t see the need for immediate change, as the sector’s business performance seemed stable and they were relatively unthreatened by competition. The few players that tried to innovate around customer problems were burdened by legacy systems, weak data-driven insights, and internal resistance to change. As a result, even when insurers have implemented large-scale digital transformation programs, these have yielded only marginal improvements. The industry as a whole remains characterized by complex products, long underwriting times, cumbersome claims processes, and disengaged customers.

The challenges for the life insurance industry are deep rooted and cannot simply be solved by digitizing the easiest steps in the customer journey or plugging existing products into digital ecosystems. Given the heavy scrutiny on costs in the wake of the COVID-19 pandemic, insurers need even more discipline on the return they are realising from digital investments.

We have identified three areas applicable across the key steps of “Discovery”, “Underwriting” and “Claims” in the customer journey (see Exhibit 1) that can drive tangible results. Insurers must first understand the problems customers are trying to solve and help remove the obstacles that matter most. Secondly, better data analytics are essential for providing insights that customers find useful: While insurers receive vast quantities of information, they should make better use of them to understand and act on customer needs and also identify bottlenecks in their processes leading to inefficiencies or dissatisfaction. Finally, insurers need to revamp their technology to make it flexible, robust, scalable, low-cost and enable easy integration with 3rd parties — which implies a model based on cloud computing, software as a service (SaaS) and open application programming interfaces (APIs).

These steps are complementary and can help insurers realise value from a digital transformation. However, since they are fundamental to the business and broad in scope, they need to be developed with a sharp focus on value creation for both shareholders and customers. Here are more details, including actionable next steps.
Exhibit 1. Key opportunities across the customer journey

**Discover**
- “I’m aware of my needs”
- “I understand the propositions and insurer value”
- “I want to explore more”

**Buy**
- Feedback loop to advisory
- “I want to buy”
- “I see what people like me bought”
- “I understand how to use these propositions”
- “I understand the value of my purchases”

**Service**
- “I need to check some doubts”
- “I need to make a claim”
- “I need to update my details”

Source: Oliver Wyman analysis

Understand holistic life needs by providing solutions to life problems

Employ AI- and ML-led dynamic underwriting for fast, accurate results and more-relevant pricing

Enable straight-through processing with NLP and automated decision making to remove hurdles from the claims process
A CUSTOMER-FIRST MENTALITY: OFFER SOLUTIONS, NOT PRODUCTS

A customer-first mentality means understanding the problems customers are trying to solve and helping to remove the obstacles they are facing. This seems obvious, but most life insurance companies still largely find customer needs to fit their product suite rather than designing solutions to solve customer problems. Instead, they need to put the customer first, look beyond the products they want to sell, and understand the problems that customers want to solve during their life journeys.

Many transformation efforts have failed because the insurers do not really know their customer bases. Where they have gathered insights into customers, these have been narrowly focused on insurance needs. We think insurers should begin by trying to truly understand what life problems their customers face. Instead of limiting themselves to the propositions they offer, they should consider their interactions with customers across the entire customer life cycle.

One way to learn more about customers is to find partners in different digital ecosystems — such as e-commerce, ride hailing, and mobile wallets — in order to tap into their customer bases. SBI Life, one of the largest insurers in India, has access to the You Only Need One (YONO) banking and lifestyle ecosystem run by its parent, State Bank of India (SBI). YONO enables users to access a variety of services, including banking, travel, and medical bill payments, and it has more than 20 million customers, compared with 300 million bank accounts for SBI. SBI Life has had some success through YONO, issuing 400,000 policies but clearly has a significantly larger opportunity ahead.

To use partnerships effectively, insurers should map out their customers' life cycles in order better to understand them — their motivations, the evolving problems they are trying to solve, and their key points of need. Insurers can then use data analytics to inform their propositions and design solutions that are better tailored to customers' needs, responsive over time, and valued by customers. In some cases, the solutions may not look like traditional insurance products, even though they are orchestrated by an insurer.

Our customer lifecycle map provides an approach to understanding customers' needs holistically and identifying their problems, even when these are not directly related to insurance. (See Exhibit 2.)
Exhibit 2. Customer lifecycle map

Yi Ling, 40
A senior account manager at a telco who wants to ensure her family plan for her daughter Adeline's education and future financial independence.

Eric, 42
An executive at a large multinational who wants to ensure a comfortable retirement and ability to travel for him and Yi Ling, as well as financial support for their daughter Adeline to get married and enter the property market.

Adeline, 13
A high school student who is thinking about studying chemical engineering at University but is concerned about the financial implications of having to attend a top foreign University.

Yi Ling and Eric decide they need to map out a plan to achieve their financial goals for them and their 13 year old daughter Lucy.

Adeline enters her last years of High school.

Adeline begins a double degree at University in the USA. Yi Ling and Eric help Lucy with relocation and some living expenses.

Eric is in a traffic accident requiring hospitalisation and ongoing rehabilitation.

Adeline graduates University and begins an entry level engineering job.

Adeline gets married and is planning to start her own family.

Yi Ling and Eric go on a month long international travel.

Yi Ling and Eric retire.

By identifying key points in customers' lives, insurers can identify value-added solutions. These points will likely be served by ecosystems, consisting of the various services and solutions for, say, education or retirement. (See Exhibit 3.) The importance of these ecosystems will vary according to a customer's stage of life. An insurer might choose to act as the curator of an ecosystem and then plug in solutions — either its own or those of a third party. Alternatively, it might provide solutions for existing ecosystems.
Exhibit 3. Ecosystem opportunities — Education and Retirement

<table>
<thead>
<tr>
<th>Example players</th>
<th>Education ecosystem</th>
<th>Retirement ecosystem</th>
</tr>
</thead>
<tbody>
<tr>
<td>Life insurer offerings</td>
<td>• Education fund and wealth planning</td>
<td>• Medical care and coverage</td>
</tr>
<tr>
<td></td>
<td>• Longevity protection</td>
<td>• Financial and estate planning</td>
</tr>
<tr>
<td>Future life insurer</td>
<td>• Student financial planning</td>
<td>• Community network</td>
</tr>
<tr>
<td>offerings</td>
<td></td>
<td>• Health and wellbeing programs</td>
</tr>
<tr>
<td>Ancillary offerings</td>
<td>• Education tutoring and coaching</td>
<td>• Entertainment facilities</td>
</tr>
<tr>
<td></td>
<td>• School recommendation</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Career counselling</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Student accommodation</td>
<td></td>
</tr>
</tbody>
</table>

Source: Oliver Wyman analysis

REINVIGORATE DATA ANALYTICS CAPABILITIES: START WITH UNDERWRITING

Insurance companies' business models are built on information asymmetry and their superior ability to pool, assess, and manage diverse risks. Insurers digest massive data sets and have become accustomed to an unidirectional flow of data and information from customers — often to those customers' irritation.

Unfortunately, insurers' ability to generate useful insights from data has not kept up with that of other sectors. Pricing still takes a long time, and underwriting models are often irrelevant to emerging customer segments. Insights into how to build relevant customer propositions are still limited, as are ideas for speeding up processes and improving decision making. Most underwriting and pricing models have seen only incremental change over the past few years, and they are ripe for radical improvement.
Potential insights into customer needs can come from analyzing customer behavior patterns, sentiments, and trends. Data analysis can also identify bottlenecks in process steps, and dynamic underwriting models led by Artificial Intelligence (AI) and Machine Learning (ML) have the potential to make decisions that are faster, more efficient, and more relevant. The models can learn from internal and external data on customer behavior and demographic trends, and they become more effective by continually refining parameters, data types, and the use of data. By targeting the right segments, such AI-driven models can increase new business opportunities by 15 to 35 percent.

To build a dynamic underwriting model, an insurer must first develop or acquire the necessary data analytics capabilities; then design a flexible architecture for easy integration with third-party partners (both to digest data and come up with insights); and finally build an effective test-and-learn platform and strategy so that actionable insights continue to be refined. The COVID-19 pandemic has prompted some changes that demonstrate the ability of insurers to modify their underwriting models and processes. Lockdowns across the United States made customers unwilling to undergo medical exams, so insurers instead used previous clinical records, blood tests, and other data. Adopting this alternative mindset, insurers can proactively look for opportunities to improve underwriting and create positive experiences for customers.

SOME INSURERS ARE ALREADY REAPING THE REWARDS OF NEW MODELS AND PROCESSES

Dai-ichi Life worked with Hitachi to revise its underwriting models. They combined customers’ medical records and in-house medical knowledge with Hitachi’s medical expense prediction tools to identify customers who have traditionally been excluded from life insurance packages because they are considered high-risk, for example because of high blood pressure. It then offered them customised life insurance packages — where previously they would have been rejected by the traditional and largely manual underwriting process.

Unqork, a US-based insurtech firm that offers enterprise applications on a single platform for insurers, has also helped a leading US life insurer to digitize its onboarding and underwriting processes. Data from disparate internal systems are fed into a centralized rating engine to provide results that are more accurate and relevant. Life insurers’ turnaround times for underwriting engagements have been reduced by between 60 and 70 percent, and costs by 30 percent.
UPGRADE TECHNOLOGY INFRASTRUCTURE: PRIORITIZE MOMENTS THAT MATTER TO CUSTOMERS

Insurers have been incrementally improving their legacy technology. However, their product launch cycles are still between three and six months, meaning they cannot react rapidly to market changes, and their processes are often manual and inefficient.

We think insurers need to move to technology architecture that is low-cost, robust, and scalable. They should consider migrating to a cloud and SaaS model and building an efficient API utility. They can then achieve flexibility and the ability to quickly integrate with third-party partners, something that is required now more than ever. They should also rethink their current processes — both customer-facing and back-end — and use data to analyze the bottlenecks leading to customer dissatisfaction, low efficiency, and high costs. Technology upgrades and partnerships with third parties could help clear these bottlenecks and replace manual interventions with AI and automation.

A clear area to focus on is claims processing, which is currently cumbersome and takes a lot of time. While insurers have worked on digitizing data and document entry, manual interventions are still common in the back office, and they require large amounts of paperwork, rework, and investigation. Medical and health-related verifications are mostly manual because they are not integrated with electronic medical records (EMR) and other information sources. For a customer, making a life insurance claim is a significant life event, and insurers need to take a customer-first mentality to reduce any distress or hurdles in the process. They should analyze the key chokepoints and introduce advanced technologies to improve processes.

Combined with advanced analytics, technologies such as robotic process automation (RPA), AI, natural language processing (NLP), and computer vision help to streamline the review of documents. They also speed up claim decisions by flagging only claims with a high risk of fraud. Verification times can be greatly reduced by integrating insurers’ systems with public data sources where possible: health ministries and large hospitals for EMR; provinces and municipalities; and even social media. NLP, ML, and computer visioning (of medical images) can enable straight-through processing (STP) for coverage and claims assessment, dramatically improving productivity. Digitizing claims like this has the potential to raise the productivity of back-office operations by between 30 and 40 percent. Moreover, timely and targeted communications during the claims process have been shown to significantly increase customer satisfaction.
HOW TO START?

Life insurers have tried digital transformation programs before, but most have failed to live up to their potential. To bring about effective change, insurers should avoid grand plans to overhaul the foundations of their businesses, as these might stall and fail to produce meaningful change. Instead, transformation teams and digital offices should start with the following three steps:

• **Prioritize.** Investors are increasingly skeptical of the returns from large digital transformation initiatives, so any digital program needs a clearly articulated shareholder narrative. That makes it critical to set out priorities and stress test the path to value creation. Efforts should be focused on the prioritized interventions, and — more importantly — precious resources should not be expended on other areas.

• **Select the right teams.** Cross-functional teams should include external members to complement the internal talent so as to incorporate perspectives from outside the sector. Most life insurance companies have a staggeringly low proportion of senior talent from outside the sector.

• **Execute with purpose.** A stage-gated plan should be designed and executed at speed by cross-functional teams. By regularly testing propositions against evolving needs, any pivots can be made rapidly, and spending can be controlled, improving return on investment.

The COVID-19 crisis has accelerated life insurance companies’ need for digital transformation, which has moved from a strategic option to a necessity. By adopting a customer-first mentality and putting data analytics at the core of their businesses, insurers can maximize the value they create. The first ones to do this effectively will soon put distance between themselves and their competition.
Oliver Wyman is a global leader in management consulting that combines deep industry knowledge with specialized expertise in strategy, operations, risk management, and organization transformation.

For more information, please contact the marketing department by phone at one of the following locations:

<table>
<thead>
<tr>
<th>Location</th>
<th>Americas</th>
<th>EMEA</th>
<th>Asia Pacific</th>
</tr>
</thead>
<tbody>
<tr>
<td>+1 212 541 8100</td>
<td>+44 20 7333 8333</td>
<td>+65 6510 9700</td>
<td></td>
</tr>
</tbody>
</table>

AUTHORS

Anosh Pardiwalla
Engagement Manager, Financial Services
anosh.pardiwalla@oliverwyman.com

Angat Sandhu
Partner, Head of Insurance
angat.sandhu@oliverwyman.com

Leonard Li
Partner, Financial Services
leonard.li@oliverwyman.com

Graham Harvey
Partner, Lippincott
graham.harvey@lippincott.com

Ajit Rochlani and Bridget Barker also contributed to this report.

Copyright © 2020 Oliver Wyman

All rights reserved. This report may not be reproduced or redistributed, in whole or in part, without the written permission of Oliver Wyman and Oliver Wyman accepts no liability whatsoever for the actions of third parties in this respect.

The information and opinions in this report were prepared by Oliver Wyman. This report is not investment advice and should not be relied on for such advice or as a substitute for consultation with professional accountants, tax, legal or financial advisors. Oliver Wyman has made every effort to use reliable, up-to-date and comprehensive information and analysis, but all information is provided without warranty of any kind, express or implied. Oliver Wyman disclaims any responsibility to update the information or conclusions in this report. Oliver Wyman accepts no liability for any loss arising from any action taken or refrained from as a result of information contained in this report or any reports or sources of information referred to herein, or for any consequential, special or similar damages even if advised of the possibility of such damages. The report is not an offer to buy or sell securities or a solicitation of an offer to buy or sell securities. This report may not be sold without the written consent of Oliver Wyman.