

View Point



Leading Sales to Issue in the 21st Century

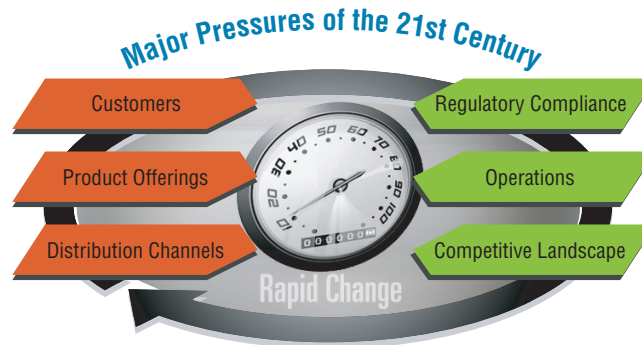
– Srikanth Srinivasan, Sigvard Bore and Ramana Sunder

Introduction

This point of view will explore five of the major imperatives that must be executed in order for life insurers and wealth management companies to take a leadership position across the Sales to Issue process in the 21st century.

What makes this new century unique? When reviewing the major pressures faced by modern companies, they look remarkably similar to those typically found in the prior century; however, understanding the turbulent undercurrents at play is a sobering undertaking that quickly highlights new approaches are required. At the core of this shift, the pace of change across all areas has dramatically increased.

Customer expectations and demands are far higher than ever before, while new customer segments are gaining importance. Couple these customer changes with a highly competitive landscape and carriers are facing impressive product & service offering challenges. Traditional distribution channels must be redefined while the digital channels need to be exploited - the latter being the preferred channel preference for the emerging mainstream generation (Gen Y). Regulatory changes across the financial sector, healthcare and consumer protection are still evolving and will have implications on how companies interact with prospects and customers, deal with information etc. And finally, this confluence of rapid change puts ever increasing pressure on the overall operations supporting the Sales to Issue area. Securing a leadership position demands operational excellence and agility through continuous improvement.



Imperative

Securing New Customers

“The collective income of Generation Y likely will surpass that of baby boomers by more than \$500 billion within 10 years. Is your company ready to meet their financial needs?”¹ While the baby boomers provided a ready market for carriers during the last quarter of the 20th century, the emergence of the digital Gen X & Y consumer requires carriers to completely adopt this segment’s preferred communication tools, i.e. Internet and Mobility. Carriers need to engage on the Internet at the level done currently in the Field Agent model (personalized, advice driven, some to talk); this is a big task given their current cautious approach to the Internet. Simply having an Internet presence will not suffice - Gen X & Y will draw comparisons not only with other financial institutions (like banks that are already way ahead in the Internet game plan), but also every other online experience including retail, entertainment and gaming. In addition, mobility solutions must complement the Internet strategy; the cell phone is now a comprehensive device (eg. iPod). In summary, carriers must completely transform to serve the digital consumer or risk missing out on this market.

In addition to generational changes, ethnic shifts are also underway. The majority of the US population by 2050 will consist of Hispanics, African Americans and Asian Americans²; the US insurance market will thus reflect a more heterogeneous / global market model. It will become essential for carriers to understand cultural aspects of each ethnic segment, and to tailor their business strategy accordingly. Adjustments need to go beyond marketing and span the complete value chain from sales, new business, policy admin to claims processing. The operational impact of multi-language support across the value chain will be a major challenge on carriers given the current exclusive reliance on the English language; this capability has implications on people skills in addition to technology. In summary, a singular strategy will not fit all ethnicities.

US Census Ethnicity Population Predictions			
	2008 (~300M total pop)		2050 (~440M total pop)
Non-Hispanic Whites	65%	↓	46%
Hispanic	15%	↑	29%
African American	12%	↑	15%
Asian American	5%	↑	9%

¹ Van Dyke, James and Garascia, Jean M., “Viewpoints: Think you know Generation Y? Think Again” American Banker, August 10, 2007

² 2008 National Population projections, US Census Bureau

Currently underserved income segments also provide a huge opportunity for new customer growth. Even though this segment already represents ~50% of the overall population, we expect the overall size of this segment to actually grow in the 21st century. Carriers will note that this segment too has insurance needs similar to higher income segments; but the specifics are different, thereby requiring new business models. The lower income customer is primarily seeking an insurance solution that is largely unavailable to them, rather than being focused on getting the most competitive product - this presents an opportunity for carriers to market products with higher margins. Best practice experiences exist in third world countries in the Banking sector (Grameen Bank in Bangladesh <http://www.grameen-info.org/>) that can be leveraged to define the business strategy on how to approach, sell and service this segment.

Social Class	Distribution
Capitalist class	1%
Upper middle class	15%
Lower middle class	30%
Working class	30%
Working poor	13%
Under class	12%

Largely underserved market segment

The needs of these emerging segments go beyond distribution channel access and preferences or product pricing. Many of them have fundamentally different needs that will need to be addressed through insurance and different buying behavior.

Imperative

Offering New and Reconfigured Products

Micro insurance is characterized by low premiums and low coverage limits, coupled with atypical risk pooling across customers in the lower income segment. This market cannot be approached by offering lower coverage in existing products; rather carriers need to truly innovate on their product offerings to ensure profitability, coupled with marketing using non-traditional affinity-based channels to gain speedy acceptance. Skeptics may point to challenges in customer persistence and retention, but these aspects can be addressed by innovative product design and effective technology solutions (another opportunity to leverage mobility solutions). Products that simultaneously support savings as well as income needs will prove themselves winners in this niche market segment. US-based carriers can look to the developing markets for success stories in micro insurance offerings - there is a need for micro insurance offerings in developed markets too! The lessons learned from approaching this market have relevance in the larger business context and carriers will be well served in pursuing a micro insurance strategy.

A careful review of complementary product and service offerings can reveal promising, new bundling opportunities that may require little, if any, reconfiguration. Unfortunately, carriers have been slow to bundle insurance products with non-insurance offerings; the traditional approach is to bundle an insurance product with another insurance products, like home & auto insurance. We expect the 21st century will see increasing customer expectations for personalized and complete solutions; this will necessitate carriers to go beyond the traditional industry approach to offering bundled products that align with customer events including non-industry partnerships (banks, auto dealers etc.). Carriers will have to focus on addressing complete customer needs (e.g. couple protection along with a new mortgage). Carriers will benefit as the sales process will be easier due to approaching the customer right at the event occurrence and the customer benefits from a seamless & complete experience; thereby resulting in a win-win for both partners and the customer.

The above mentioned product and customer ideas are examples of innovative approaches to establishing a leadership position. However, they are ideas for a narrow point in time: the near-term future. How can a company secure a longer-term competitive edge? The true winners will use a proven / repeatable process to regularly refresh its product strategy and portfolio - to tap under-served markets and customer segments (including soon to be ex-customers and current non-customers). Furthermore, to avoid relying on the exceptionally rare visionary, the leading company should embrace an enterprise-wide approach to idea generation, along the lines of Blue Ocean Strategy® (BOS). At its core, BOS encourages Value Innovation - reducing spend in areas that no longer generate true customer value, while increasing spend in divergent or new competing factors (i.e. areas that present an opportunity for brand new markets & less competition). In addition, the BOS framework encourages participation in the process across the enterprise, often leveraging untapped sources of innovation and establishing the agile culture demanded by today's competitive landscape. Bottom line, in a rapidly changing and highly competitive environment, leading companies cannot be seen as "one shot wonders", but rather organizations of continuous innovation that constantly focus on overall customer value.

Imperative

Leveraging Evolving Distribution Channels

The latter part of the 20th century brought an evolution of multiple channels beyond the traditional agent channel (e.g. direct phone-based, brokerages, bancassurance, internet etc.). Most carriers have attempted to leverage a majority, if not all, of these channels to provide multiple avenues for reaching out to the customer. However, this sweeping approach has resulted in the challenge of ensuring consistent messaging across all channels that are not always in the carrier's control. The resulting mixed messages have in fact often lead to adverse outcomes. We propose that carriers focus on a select set of channels that provide maximum business value in reaching out to the customer, and couple this with leveraging the Internet (which we expect to emerge as the primary / preferred channel in the 21st century). This focused channel approach has three major components; first, determine the distribution channels that provide maximum value and aligns best with customer preferences and convenience; second, define a tiered Internet-based distribution strategy; and finally, aggressively pursue the selected channels. The focus on a select set of channels will ensure consistent customer messaging coupled with the optimal application of resources, thereby providing a rich and seamless customer experience across channels.

Varied channels aside, human talent will always be a primary concern to ensure successful distribution channel leverage - the option for human interaction will never go completely away for leading carriers. Recognizing this fundamental truth, it is equally important to understand that the first human interaction experience for any prospect sets the tone for the subsequent interactions and eventual conversion. Movement of skilled human talent to other lucrative financial services sectors is a given, due to shrinking boundaries around sectors of the financial services industry added to the overlaps in service offerings. This dimension has huge implications on the overall industry growth. Carriers need to acknowledge this challenge and how it impacts the available resource pool, and then define their human resource strategy accordingly. If pursued appropriately, leading carriers will no longer be the victims of priceless talent loss, but rather the beneficiaries (and not just from within their industry sector)!

In addition to the above external pressures on the highly competitive resource pool, it is equally important that carriers provide organizational support to the distribution channel staff. It is well established that internally driven frustrations resulting from lack of adequate support, non-availability of appropriate tools and ineffective training contribute to the current high distribution turnover statistics. Thus, it is not sufficient that the right talent is hired; it is equally important that the talent is appropriately enabled by providing the right training, tools and operational support. Carriers must factor the impact of organizational support into their talent retention plan and overall HR strategy.

Imperative

Staying Ahead in Regulatory Compliance

The financial crisis early in the 21st century has necessitated that regulatory compliance excellence takes center stage in any carrier's corporate strategy. Insurers must acknowledge that multiple regulatory changes in quick succession are an established and ongoing reality. Every carrier must have strong processes to rapidly assess regulatory impact, disseminate changes quickly across the sales to issue functions, and have a means of following up to ensure accurate & timely implementation. The dynamic regulatory environment coupled with obvious challenges in integrating regulatory requirements into operational excellence pursuits underscores the point that this cannot be treated as a 'one-off' exercise. A repeatable, well-defined process by which new compliance requirements are quickly integrated into the overall operations is a must-have; this process must be owned by an executive-level centralized regulatory office. Organizations may require cultural changes to ensure sustainability, but the bottom line is to become truly compliant else risk extinction.

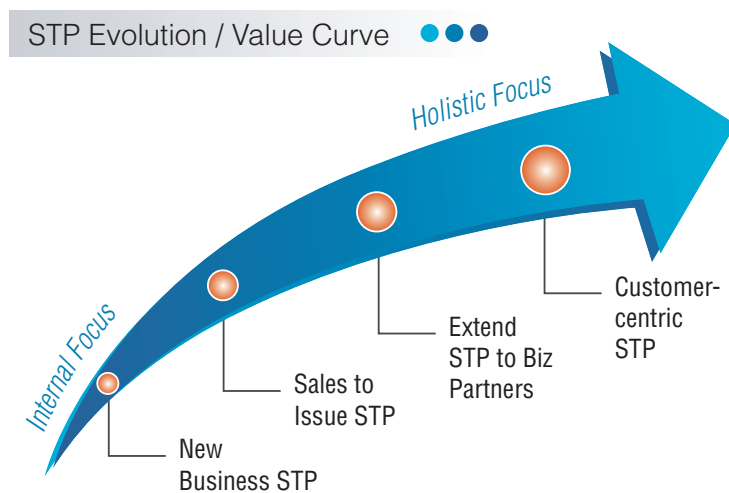
Although regulatory compliance causes sleepless nights for many, there is some relief in sight for those carriers flexible enough to pursue it: impact of regulations tends to be common across individual insurers... For carriers willing to collaborate with others, including their direct competitors, substantial relief is possible! We propose that there is competitive sense in carriers collaborating to assess impact of compliance requirements rather than doing so alone. There is significant business value to collaborate at an industry level; this collaboration is a must given the limited availability of specialized skills required and the high expenses involved. An industry regulatory assessment body must be created tasked with this sole intent; the pooling of individual resources will ensure that the whole exceeds the individual sum parts, and that the massive burden of regulatory impact analysis is better handled in a shared/distributed manner.

Assuming carriers are open to competitive collaboration, this can be further extended to yield even more impressive benefits. It is no secret that the regulatory authorities are always playing catch-up with the fast pace of change in markets / industry. We believe that this constant challenge for the regulators presents an opportunity for “groups” representing the insurance industry to proactively engage with regulators early on. It is important that this engagement must take the shape of educating the regulators of the specifics of these market changes. In return, carriers gain early awareness of the regulatory direction while opening the possibility of positively influencing the regulatory process. Extending this even further, the industry body could even become a part of the regulatory structure itself!

Imperative

Implementing Streamlined, Agile Operations

75% or more of carriers are currently planning for / implementing straight through processing (STP). Given the large-scale resource requirements, this implementation is typically incremental in nature. However, care must be taken that this incremental implementation does not dilute the end-to-end tenet of STP. A holistic approach with emphasis on a long term roadmap to implement STP is required else benefits are realized for only portions of the business, while the overall benefit of STP is never actually realized. In addition, carriers must redefine STP to reflect the customer perspective instead of an inward looking approach. Furthermore, business partners need to be an integral part of the overall effort. Solutions leveraging technologies that complement STP are the need of the day; examples include using social media to feed marketing strategy, e-sign / electronic content based new business & servicing. In summary, customer-centric STP (which is by nature holistic) can be a key differentiator in this crowded marketplace due to the resultant superior customer experience.



Another operational trend strongly aligned with agile operations in the insurance industry is the emergence of universal tele-underwriting. This practice often requires a mindset change for insurers in their approach to assessing risk - elimination of X-ray & EKGs, reduction of full Medical Exams coupled with an increase of Paramedical Exams (physical measurements + fluids). Furthermore, the emergence of Motor Vehicle Report and Pharmacy Profile provides an added source for rich customer-centric data that can be used as input to rapid risk determination. The next level could be to tie-in additional customer information available on social media to validate this assessment. Making the overall underwriting process much less transactional with fewer touch points has a huge positive impact on the overall

customer experience. As a truly different, non-invasive approach, it is likely to be a game-changer. Insurers that adopt this emerging trend quickly and revamp their risk assessment have the potential to become leaders.

Most will acknowledge the truism that what isn't measured isn't known. However, despite the fact that the vast majority of carriers have defined metrics / KPIs to help manage their sales to issue functions, most carriers are guilty of focusing exclusively on New Business driven metrics (measuring cycle time from when application is received in Home Office is a good example). In some cases, these measures could actually dissuade behavior that would enable a truly agile / streamlined operation! Thus, it is essential that carriers focus on true end-to-end metrics that will provide comprehensive visibility to all business areas. We recommend that insurers identify value-add operational metrics based on competitive measures and redesign their operations accordingly. Cultural shifts may be required, but the resultant transparency and effective business decision making provide an opportunity for truly best-in-class operations.

Continuing the theme of taking a widely accepted practice, but extending it further to achieve true market leadership: strategic partnerships will be a basic tenet of the competitive landscape, but not just for those functions considered “non-core” or “low value-add”. Carriers have to critically assess their current operations in light of today's global capabilities, with an open mind towards truly leveraging partnerships wherever scale and value can be realized. Examples include establishing a content factory for marketing, external underwriting decision support, policy printing, etc. Less than 10 years ago, partnerships like these would not have received a second thought. Yet today they are already being successfully implemented!



Conclusion

Leading Sales to Issue in the 21st century will not happen by focusing on one or two of the imperatives covered in this point of view, it will be the result of a truly holistic and balanced approach across all. New customers must be effectively secured through innovative product and service offerings. All distribution channels must be considered and selectively leveraged to deliver these offerings to the maximum number of customers in the most efficient manner possible. Given these prior imperatives are highly dynamic in nature, and given massive regulatory risk exposure, staying ahead of regulatory compliance is an absolute must. And finally, the operational engine that supports all of these imperatives throughout the Sales to Issue process must be equally streamlined and agile. Failure to recognize the intertwined nature of these imperatives will surely prevent any possible leadership position, and more likely have severe consequences. The true leaders, on the other hand, will find ways to continuously revisit these imperatives in a balanced way, with value innovation as a bedrock principle and the intent to find undiscovered markets a standing order.



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