NAVIGATE YOUR NEXT
— in Insurance —

TRENDS

2022 GLOBAL TRENDS RESHAPING TECHNOLOGY IN INSURANCE

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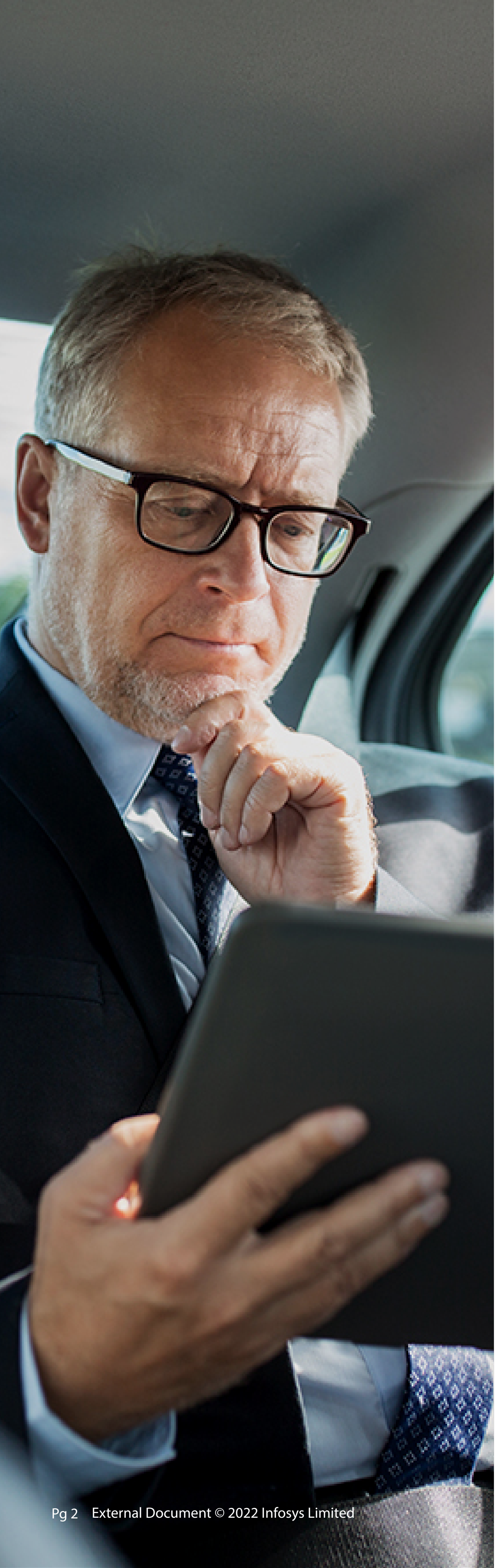

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FOREWORD

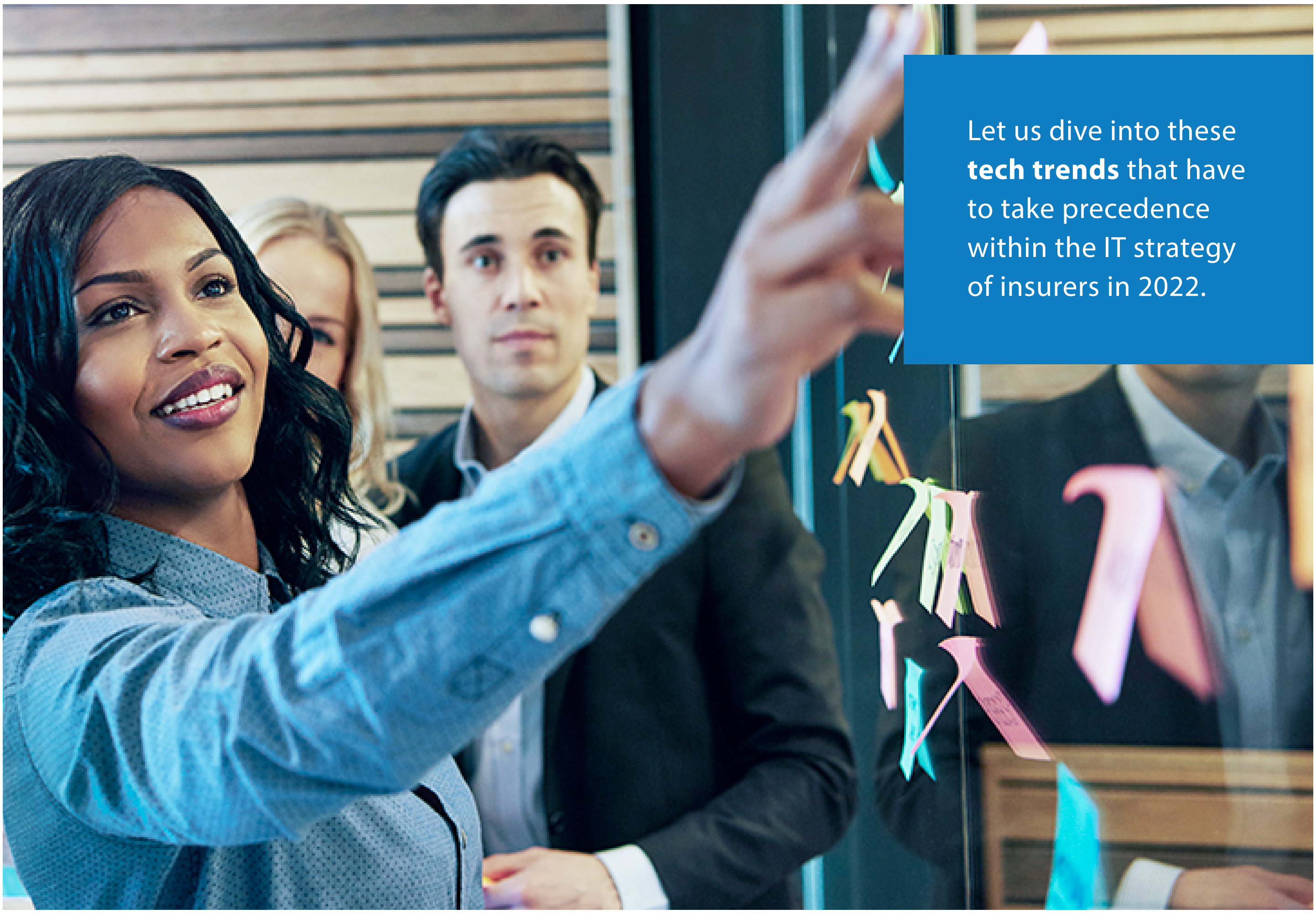
From a revenue standpoint, the years 2020 and 2021 were defining years for the entire global insurance industry across all lines of business and distribution channels.

2021 disrupted a long-standing belief that "Insurance is never bought; it is always sold."

When the COVID-19 pandemic began, analysts expected the insurance industry to falter. However, customers began seeking insurance products to insure themselves from risk. The US life insurance sector saw unprecedented growth in sales with an 11% increase in the number of policies sold, which was one of the highest figures in recent years[1].

As the pandemic eases in 2022, customer may revert to exploring choices in the insurance market. Thus, insurers must focus on customer retention for the next two years to improve profitability[2]. There are two main perspectives to consider. Firstly, to avoid losing existing customers to the competition. Secondly, to sustain premium income at the contract level.

NEW BUSINESS PRIORITIES FOR INSURANCE



Let us dive into these **tech trends** that have to take precedence within the IT strategy of insurers in 2022.

Based on research by Infosys, the insurance industry will be driven by three business priorities in 2022, apart from retaining customers and sustaining revenue.

These priorities are:
To ride the wave of digital disruption and digitalize key functions across the policy lifecycle. This transformation will attract millennials and digital natives, empower clients, and extend distribution channels.

To upgrade risk assessment by either introducing new methods or enhancing existing ones. This is crucial to accommodate the changing nature of risk associated with natural catastrophes, increased digital exposure, climate change, and the proliferation of lifestyle devices. Specifically, P&C and life carriers must redefine underwriting as well as claims functions.

To consolidate efforts and establish robust compliance governance and reporting infrastructure. Compliance remains one of the top focus areas for insurers in 2022, particularly in light of IFRS 17 and 9 compliance programs and sustainability initiatives across various industries.

Insurance CIOs must realign their IT strategies to achieve these business priorities.

The enhanced IT strategy should include programs like:

- Deploying RPA and cognitive artificial intelligence (AI)
- Managing data and alternative data structures
- Linking sourcing with cyber security
- Providing the best user experience for key personas across customer touchpoints

TREND 1: COGNITIVE AI IS DISRUPTING INSURANCE PROCESSES

AI is already playing a critical role in insurance. Many InsurTechs are using cognitive AI to conceptualize and create next-gen offerings.

Looking ahead, insurers will leverage cognitive AI in back-end tasks like underwriting and claims management to speed up decision-making.

A McKinsey report analyses how Applied AI has the potential to enhance insurance functions such as underwriting, claims, and distribution3. Currently, the US is leading the world in its deployment of AI in insurance. The examples are many: A Midwest personal lines insurer is building a state-of-the-art claims platform that uses bots to accelerate claims processing. A leading US life insurer plans to deploy AI-based decision-making models in medical underwriting and claims settlement. AI is also effective as a cross-selling tool.

A leading Canadian life insurance company is planning to deploy cognitive AI techniques to promote individual life products among its group life members.

TREND 2: DATA MANAGEMENT GOES BEYOND TRADITIONAL DATA STRUCTURES

Customers want personalized insurance products. Thus, real-time customer data is paramount to creating accurate rating and pricing models.

Insurers recognize the need for 360-degree customer data to improve customer satisfaction, an outcome that remains high on the agenda. However, customer and contract data change continuously. Relational databases have limitations in supplying data in real-time. Top insurance carriers in the industry know that they need alternative data solutions – new data structures, to be specific – to speed up policy decisions.

Currently, many insurers are defining data strategies and initiatives to gain a 360-degree view of customers.
For example, some are investing in API development to connect with external data sources and consume data from IoT and wearable devices. These new data structures also maintain accurate data at the contract level and comply with IFRS and data privacy norms such as GDPR and CCPA.

Technology like this will improve the confidence levels of decision-making models and determine profitability more accurately.

They are heavily dependent on data with reasonable quality. Some of these will have a balance sheet impact.

The integration of all of this data along with the necessary data infrastructure will support futuristic insurance functions such as underwriting, claim settlement and suggesting next-best offers.

For example, a Midwest personal lines insurer has launched a breakthrough data initiative to enable highly sophisticated claims processing. They are adopting a graphical database that leverages connections as well as edges to create a sentient claims organization. Unlike life insurance claims that rely heavily on internal data, the new business and underwriting decision models in the personal lines industry need both internal and external data to speed-up decision-making processes.

TREND 3: SELECT THE RIGHT PARTNER WHEN OUTSOURCING IT

As per Infosys research, 2022 will disrupt the sourcing landscape for insurers[4].

Leaders within insurance companies have already taken ownership of transformation programs and were ready to execute these before the pandemic. These programs range from implementing policy administration and servicing (PAS) systems and adopting cloud to modernizing claims and record-keeping systems along with version upgrades.

Many P&C carriers plan to upgrade their commercial off-the-shelf (COTS) products using Guidewire, an industry platform for P&C carriers that combines digital, analytics, and AI. However, not all of these are related to the cloud. For instance, a leading insurer based in Sweden has opted for an on-premises version of a top COTS product. Hence, system integrators (SIs) are occupied with establishing offshore factories for both version upgrades as well as cloud migration for Guidewire, Duck Creek, Fadata, etc. US-based group insurers offerings products like group life insurance, group worker benefits, and worksite markets plan to replace existing applications using COTS offerings from vendors such as Majesco, ViTech, EIS, Fineos, etc.

Amid these trends, the vendor selection process is changing across US and Europe. Carriers want partners that act as a one-stop-shop providing end-to-end services ranging from consulting, transformation execution, application maintenance, and business processing. Localization and diversity also remain strong selection criteria. For instance, Midwest carriers prize diversity while localization is an important factor in Europe. In P&C specifically, insurers want vendors to be able to deliver best-in-class offshore COTS capabilities. In the life insurance segment, carriers look for the lowest possible price per policy or member. Additionally, insurers also look for the ability to create new or enhance existing statistical models used in investment, actuarial, and regulatory compliance.

SI vendors are building these capabilities in-house and establishing necessary partnerships to help insurers launch new offerings and meet future demand.

TREND 4: CREATE SEAMLESS OMNICHANNEL USER EXPERIENCE

Since COVID-19 hit, the insurance industry has been under pressure to improve user experience.

A look at the prominence of telehealth demonstrates this: In a short span of two months between February and April 2020, telehealth use increased by 78 times[5].

To deliver an omnichannel experience to customers, many carriers are investing in innovative business and claims UX capabilities. Currently, most of these investments are focused on sales. Take the case of a leading personal lines insurer in Europe that wants to revamp the buying experience through direct channels. Similarly, a large US-based life insurance company is trying to improve the licensing experience for its agents. UX investments are not limited to growth areas alone. A leading life insurance company specializing in buying closed block businesses is investing in technology to revamp user journeys across the policy lifecycle in order to retain high-net-worth individuals.

TREND 5: ASSESS THE RISKS THAT COME WITH TECHNOLOGY

The biggest risk is the non-availability of technology talent. This is a global issue that is further accentuated by the localization expectations of different stakeholders in the ecosystem.

The problem is more acute in offshore locations. This challenge could derail some transformation projects due to be completed in the next two years. Insurers can mitigate this risk by either redirecting internal talent from non-critical programs to critical ones or by involving business teams, re-prioritizing requirements, and delaying non-critical programs.

Another risk is the vulnerability to cyber-attacks. As the majority of the workforce and offshore teams work from home, there are many vulnerable digital touchpoints that can lead to data leaks, data manipulation, and breach of processes. Carriers want to engage IT experts to audit this risk and recommend solutions that can safeguard remote operations.

The lack of a cohesive partner ecosystem is another challenge. Apart from a few leading COTS product vendors, most are yet to mature their partner programs. Carriers need to blend InsurTechs into their IT landscape if they want to progress on their innovation agenda. As most digital disruptors are small businesses, they struggle with high capital expenditure combined with high attrition. This creates severe delivery risks for buyers, without the support of big technology vendors and can lead to delayed transformation programs. Thus, carriers need a smooth and cohesive partner ecosystem for faster realization of ROI.

Conclusion

The global insurance industry has remained profitable during the pandemic.

As the nature of risk continues to evolve, they must ride the wave of demand for innovative insurance products and seamless back-end processes. Modern technologies such as cognitive AI and sophisticated data structures can help insurance providers stay ahead. Apart from this, insurers must also focus on enabling omnichannel experiences and a strong partner ecosystem with best-of-breed systems integrators. These capabilities will enhance decision-making models and support robust governance frameworks. It will also help insurers manage multi-vendor scenarios and protect themselves against cyber vulnerabilities.

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Author

Nandhakumar Muthusrinivasan

Heads Insurance Domain Consulting group. Has more than 25 years experience in Insurance Technology, CXO advisory and Life Insurance.

For more information, contact askus@infosys.com

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