



A Platforms-first Operating Model in Insurance

Enabling Digital Transformation in Insurance at Speed and Scale

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www.everestgrp.com | EGR-2021-41-V-4774

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Introduction

Newer entrants from industries such as auto, e-commerce, BigTech, and startup(s) are posing stiff competition to insurers with the promise of faster and innovative products. The shrinking of investment income due to interest rate stagnation, high insurance penetration in developed regions, emerging risks in areas such as cyber threats, data on cloud, and digital assets, coupled with rising customer demand for digital touchpoints across the insurance value chain, are compelling insurers to rethink their operating models. These changes have accelerated the need for innovation in the insurance industry.

In particular, insurers need to overcome the following challenges to succeed in the present business environment:

- High prevalence of legacy technology, which slows down modernization initiatives
- Siloed business and technology team structures
- Friction in business operations, resulting from multiple disparate systems
- Low value realization from data investments
- Challenges in acquiring and retaining skilled workforce from the market
- Friction in dealing with multiple third-parties for technology and operations outsourcing
- A constantly changing regulatory landscape – data protection regulations such as the Health Insurance Portability and Accountability Act (HIPAA), the California Consumer Privacy Act (CCPA), and the General Data Protection Regulation (GDPR) or accounting norms such as International Financial Reporting Standards (IFRS) 17 have created additional overheads and complexities across business and technology for carriers

In this research, we explore how a platforms-first mindset can help carriers become future-ready and remain competitive. The key benefits of a platform-based model are:

- Offers carriers the ability to modernize their technology in parts, as it entails the adoption of a modular architecture
- Helps carriers derive value from data by capturing relevant data at each touchpoint and combines internal and external data to create personalized and compelling customer and agent/broker experiences
- Provides the agility to respond to changing customer needs, launch products faster, and do accurate pricing and quoting; and shortens the journey from policy quote to issue for prospective policyholders
- Facilitates the shift to a consumption-based model, which reduces the need for upfront capital expenditure and creates funding capacity for other projects

We conclude the report by outlining a roadmap for adopting a robust and future-ready platform-based operating model for carriers.

Current challenges for carriers and the need to shift to a platform-led business model

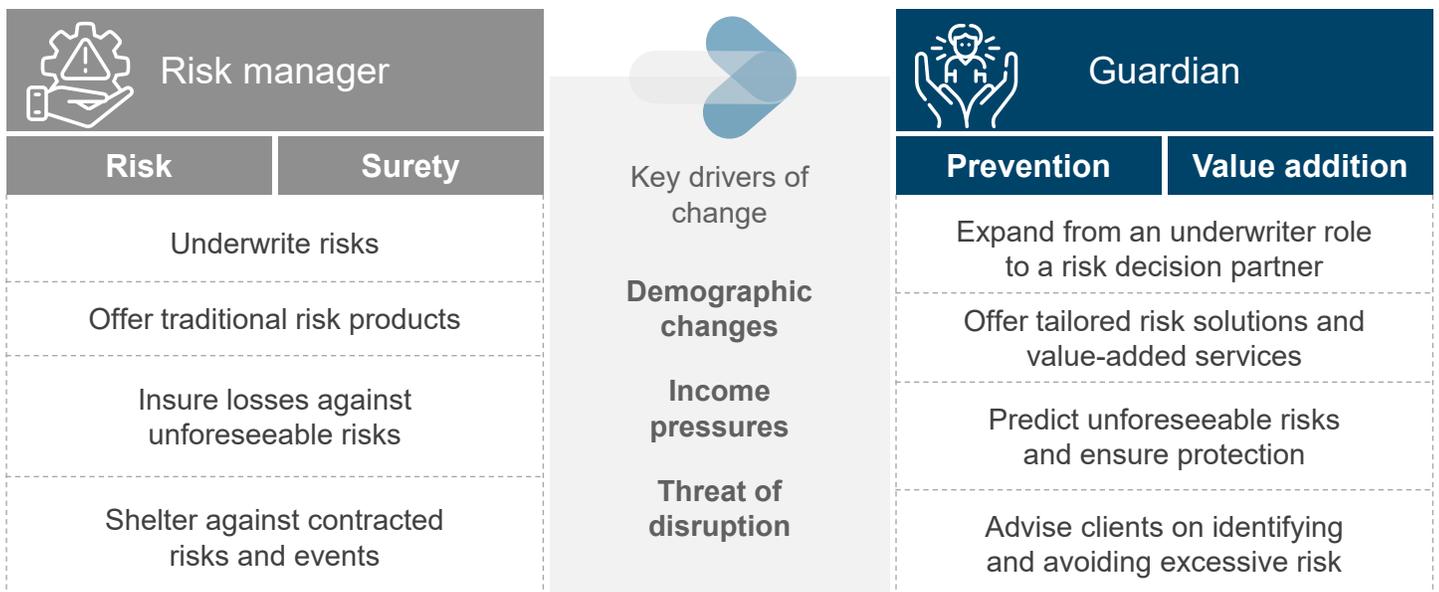
Insurers are responding to external disruptions and internal legacy IT and process challenges by evolving from being risk managers to becoming guardians for their policyholders against those risks. This shift has driven a fundamental change in the way insurers go to market. Their ability to help customers be better prepared against risks has two advantages – it helps carriers save on potential claims expenses and at the same time delight customers, as they are better informed about potential risk elements. Increasingly, enterprises are enabling customers to interact with various stakeholders through a platform-based operating model to create value through meaningful exchanges. Some of the ways to implement a platform-based operating model in the insurance context include using an IoT-enabled ecosystem that generates a continuous data stream and helps proactively monitor risk levels to properties, leveraging third-party data to provide unique and attractive usage-based insurance products, and selling policies at the point of sales (for example, on an e-commerce platform) itself so that customers can conveniently buy insurance products without actively searching for them. This enables insurers to move away from the traditional agent / broker channel-led approach to a more as-a-service-enabled ecosystem, in which insurance products can be seamlessly embedded in consumers’ daily life.

A platform-based model allows insurers to directly interface with customers, capture valuable data about the policy purchase cycle, price products more accurately, and have a greater control over the sales and service experience as opposed to only reducing claims expenses. This creates more value for customers, as they are less worried about the consequences of facing these risks with better financial awareness and knowledge. The exhibit below depicts the evolution of insurers from risk managers to guardians against risk.

EXHIBIT 1

The evolution of insurers from risk managers to guardians against risk

Source: Everest Group (2021)



Some of the ways in which life and non-life carriers are shifting to the guardian role are:

- Life and Annuity (L&A) carriers are using data to build sophisticated models that can create insights for each customer hypersegment, enabling targeted cross-selling and up-selling. They are looking at newer ways to influence healthy lifestyle behavior and reduce mortality risks through health and wellness initiatives for policyholders. By engaging in life-event tracking, L&A carriers are proactively offering relevant and tailored coverage extensions and achieving customer delight, while reducing policy servicing overheads
- Non-life carriers are offsetting risks by using sensor data for continuous monitoring of damage to homes, commercial properties, crops, and other customer-owned infrastructure for faster damage and risk assessment, as well as mitigation. They are also leveraging innovative methods, such as the use of telematics data for more accurate and usage-based insurance products for auto insurance policies. Several carriers are using external data sources, such as Hazard Hub, to enhance their risk assessment models in the wake of rising natural catastrophe events. To smoothen the claims experience for policyholders, carriers are also deploying digital tools such as sensors and AI-based claims analysis tools to shorten the claims submission-to-payout cycle

Beyond just enhancing their own product offerings, insurers are moving to a co-creation model with other market participants, such as technology vendors, service providers, hyperscalers, and InsurTechs, to form a services ecosystem that can be consumed in an on-demand model.

A platform-based operating model has several lasting benefits for carriers:

- First, it **allows carriers to modernize in parts** by creating a modular architecture, starting with components that are easy to change. A modular architecture can also be achieved by assembling best-of-breed solutions across the value chain, such as policy servicing, sales and distribution, new product development, and claims management. This helps carriers optimize their run costs and convert large-scale system modernization exercises into smaller workstreams, thereby adopting changes in a phased manner instead of a big-bang approach, which tends to carry higher risks and also takes longer for benefits to be realized
- Second, digitalization of components and continuous modernization **allow insurers to capture and analyze data that was earlier lying dormant** to generate more meaningful insights and personalize experiences for all stakeholders, including policyholders, agents, brokers, and employees. A platform-based operating model also helps carriers be nimble and agile to respond to newer threats emerging from within and outside the industry by offering newer and customized products targeted to niche market segments with a more accurate pricing engine
- Third, digital platforms **create a services ecosystem that all stakeholders can leverage**, as the platforms enhance value realization from data. Mutual participation and co-creation can help serve the community's evolving needs, thereby enabling traditional carriers to respond to newer threats from Direct-to-Consumer (D2C) insurance players and InsurTechs, which are smaller and nimbler in responding to customer needs

A consumption-based model to procure the technology platform and services eliminates the need for large upfront capital expenditure and accelerates funding for modernization by moving larger portions from CapEx to OpEx. The pivot to a platform-based approach will also compel insurance firms to effectively plan for change management during and after the transition, so that business and technology teams can work in tandem and reduce existing siloes in the organization.

Redesigning IT, systems, and processes to transform stakeholder experience and achieve successful business outcomes

A platform-based IT operating model brings elements of composable architecture, data-driven operations, and as-a-service consumption models, and creates impact across experience, agility, and efficiency for a carrier. This impact needs to be designed and measured across the insurance value chain elements, as described below:



Customer onboarding and new product development

The platform mindset is reshaping how insurers think about onboarding customers and develop innovative products. The use of newer data sources through Internet of Things (IoT) and mobility is allowing insurance firms to offer customized Usage-based Insurance (UBI) products to their auto insurance customers. Newer integrated software suite(s) are helping insurers onboard new clients faster, significantly expediting and simplifying the manual forms intake process. Thus, insurance firms can delight not just their new customers, but also their agents and brokers, as the information flow is managed digitally, which makes tracking and completion easy.

A case in point is Icelandic insurer ViS, which partnered with the telematics data provider company Cambridge Mobile Telematica (CMT) to provide UBI products for the first time in Iceland. The firms dropped the traditional parameters used for pricing such products and incorporated newer methods for auto insurance pricing, such as the telematics data of driver behavior. New-age entrants, such as Ethos in the US, are making customer onboarding seamless for policyholders by eliminating tedious processes, such as in-person medical examination and invasive questioning, from the first stage of the customer journey. They achieve this by using APIs to integrate with third-party underwriters to determine life insurance eligibilities for incoming policyholders. This move has helped Ethos grow by about 500% in revenues and customers over the last year itself, while selling life insurance in 49 states. It has also grown its valuation to US\$2 billion, which is a testament to the massive business potential of newer ecosystem models.



Policy sales and distribution

For many carriers, D2C channels are becoming increasingly common to directly connect with consumers and sell policies without the need for intermediaries.

ZhongAn (the result of a collaboration between Tencent, Alibaba, and insurer Pen An) is one of the largest such D2C businesses in China. The firm has gained major market share in a short time through its ability to sell micro-insurance policies online on third-party partner platforms, such as e-commerce and transport websites. Meanwhile, China-based Ping An's online car-purchasing platform, Autohome, draws more than 29 million unique visitors every day, generating one-third of the customer leads for the insurer's P&C and financial services businesses. Bestow, a US-based online insurance firm, promises to sell term life insurance without the hassle of case management or doctor visits, thereby offering instant coverage by digitizing the entire forms intake process for prospective policyholders. Its platform-based offering even

offers APIs for other insurers to use its accelerated AI-based underwriting in their ecosystems and allows them to add term life products to their own offerings – as US-based Lemonade did at the beginning of 2021.

Apart from building platforms to distribute products digitally, most insurers rely heavily on agents and brokers to distribute their products. Hence, they are investing in Digital Experience Platforms (DXPs) such as Salesforce, Liferay, and OpenText to solve for stakeholder experience challenges and create a digital, omnichannel model of engagement for them. Following the pandemic, digital aids such as virtual sales agents and customized robo-advisory tools have also increased in popularity to enable personalized customer-agent interactions.



Policy servicing and post-purchase engagement needs of customers

Insurers are now looking beyond selling policies and are actively engaging with their customers. Many L&A insurers are tracking important customer life events, such as marriage, parenthood, and retirement, to be able to offer personalized coverage and suggest suitable premium changes to policies, in addition to automatically updating customer information when such events occur. They are also feeding information to their agents and brokers to improve policy recommendations and offer appropriate financial guidance, and they follow a best interest sales principle with tools such as educational documents and training materials on web-based portals that help in advising customers.

A case in point is Prudential's app, Pulse, which aims to make healthcare more personalized and accessible. This application is a mini hub of relevant information that showcases how insurers can combine different services from start-ups into one seamless experience, thereby benefiting all the parties involved. In addition to being an all-in-one application for personal health management, Pulse uses data from the Malaysian Ministry of Health (originally launched in Malaysia and now expanded to several Southeast Asian countries) to predict risks such as the possibility of a local dengue outbreak in the next 30 days, with an 80% accuracy claim. Vitality, the South African insurer Discovery's health and wellness management program, has helped reduce its customers' hospital stays and the incidence of chronic conditions, compared with those who do not use its health and wellness program. This goes to show that policyholder benefits can range from paying lower premiums to more convenience and even better health outcomes, thereby enabling insurers to be one step closer to their goal of becoming customer "guardians."



Claims management

Insurers have historically had a long and complicated claims management process, which consumes a significant amount of time, from the time when a customer submits a claim to the time of its payout. To expedite the claims payout process, many insurers are utilizing technology platforms, which help integrate capabilities across the claims life cycle and simplify the end-to-end process – from claims submission to the final payout.

For example, Majesco, a leading US-based cloud insurance software solutions provider, has enhanced the functionalities of its platform through the ClaimVantage Absence Management suite. This suite offers additions such as Straight Through Processing (STP), improved User Experience (UX), and configurability for effortless

claims processing and enhanced compliance for absence management. Majesco has also partnered with Livegenic on its EcoExchange portal to simplify the claims journey. Livegenic operates a platform (which offers a range of web- and mobile-based applications), which helps with faster claims inspection, including real-time video-streaming of events, customer support service, and other tools useful for claims inspection management for field teams. Thus, technology players are increasingly extending their platform capabilities and using integration APIs to combine physical and digital touchpoints for a “phygital” experience to serve carriers, agents, and brokers.

At the same time, InsurTechs such as the US-based Shift Technology are building software automation platforms that can plug and play with insurers’ systems and help identify a claim’s fraud risk, in addition to providing AI-based decisioning. The company’s Shift Claims Automation functions as a virtual claims handler that helps customer service representatives or agents resolve claims directly, bypassing the traditional claims process by validating the information required to move a claim forward using an AI decision engine. The scope of the evaluation encompasses policy coverage, liability, the validity/appropriateness of documentation, and the potential of the claim being fraudulent or suspicious. This evaluation helps reduce claim frauds and achieve Straight Through Processing (STP) with ease.



Value-added services

Beyond looking at traditional risk coverage, underwriting using traditional data sources, and simplified distribution of policies, insurers are proactively considering newer ways of conducting business. To ensure they stay relevant in the long term and are not made obsolete by next-generation digital disruptors, they are looking to address emerging risks, develop new products such as parametric insurance policies, and utilize non-traditional and unstructured data sources in their underwriting processes for pricing innovation.

For example, US-based data analytic and risk assessment firm Verisk created a data exchange platform in collaboration with the Canada-based telematics firm Geotab that was made available on the Geotab marketplace. The platform helped commercial fleet insurance firms (of the fleet owners) to tap into fleet data captured to price premiums appropriately. The seamless data exchange and the simplicity of the data exchange have allowed fleet owners to save costs on policy, while commercial fleet insurers have achieved faster, more accurate underwriting using the service.

Similarly, Lloyd’s of London’s marketplace partnered with the New Zealand-based insurance start-up Bounce to launch a parametric earthquake insurance policy for commercial customers and homeowners in New Zealand. This technology uses real-time data from the government agency GeoNet to track peak ground velocity, which triggers payment to policyholders when the tremor shakes reach 20cm per second. The policy automatically pays out within five days of breaching the trigger point and payments are stepped, with stronger earthquakes resulting in higher payments under the cover. Many insurers also utilize their internal data assets to create new revenue streams, thereby combatting their diminishing investment incomes. The US-based insurance firm Allstate is monetizing driver data through its subsidiary Arity, which generates behavioral insights on its platform. The potential use cases are targeted at

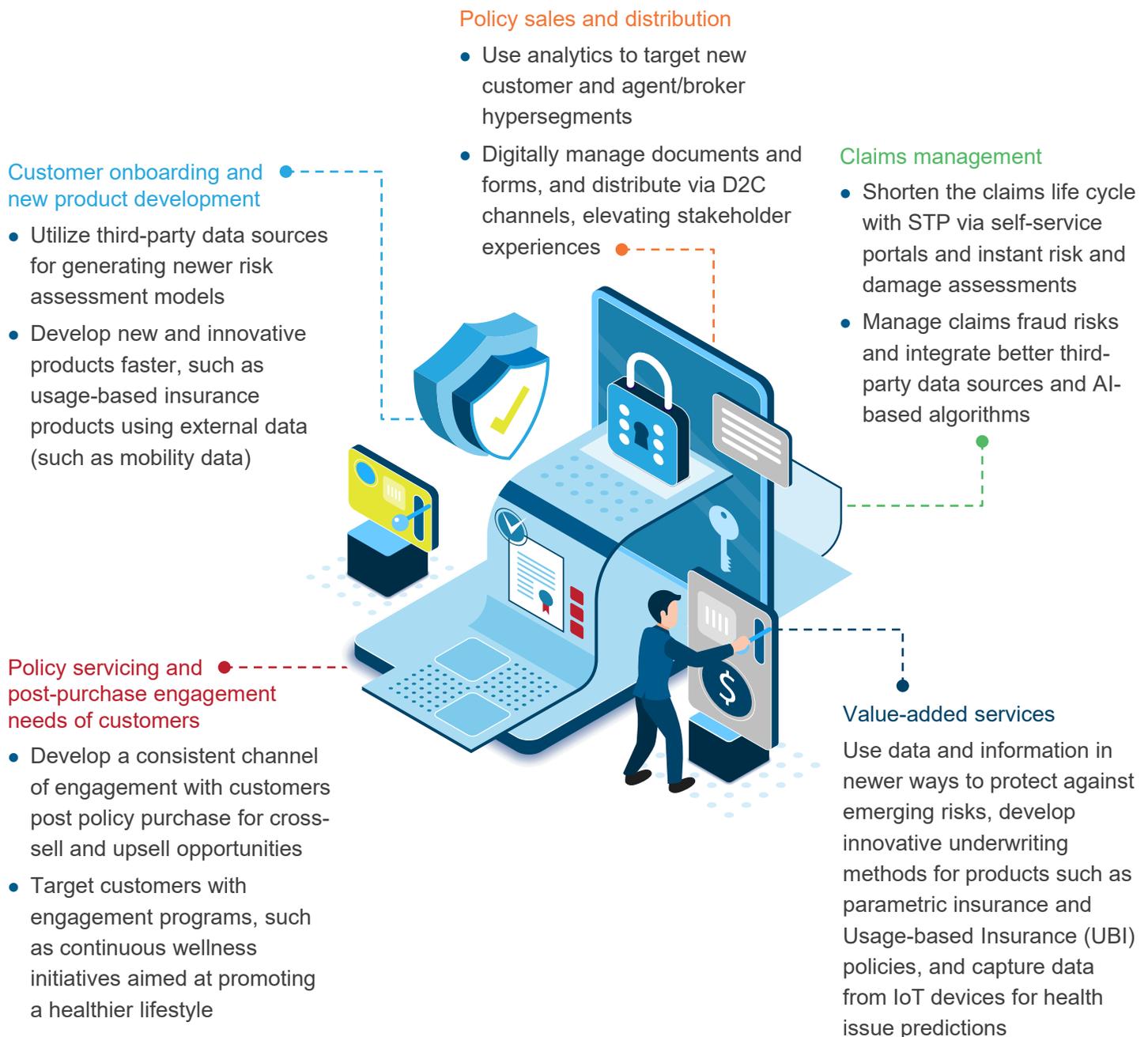
firms operating in the sharing economy, including rideshare, carshare, and on-demand delivery companies. Allstate has been able to generate revenue upwards of US\$200 million from alternate business models.

The exhibit below illustrates the benefits of adopting a platform-based operating model across the insurance value chain.

EXHIBIT 2

The benefits of adopting a platform-based operating model across the insurance value chain

Source: Everest Group (2021)



Conclusion: the triple A's – Adopt, Adapt, and Ally – to transition to a platform-based operating model

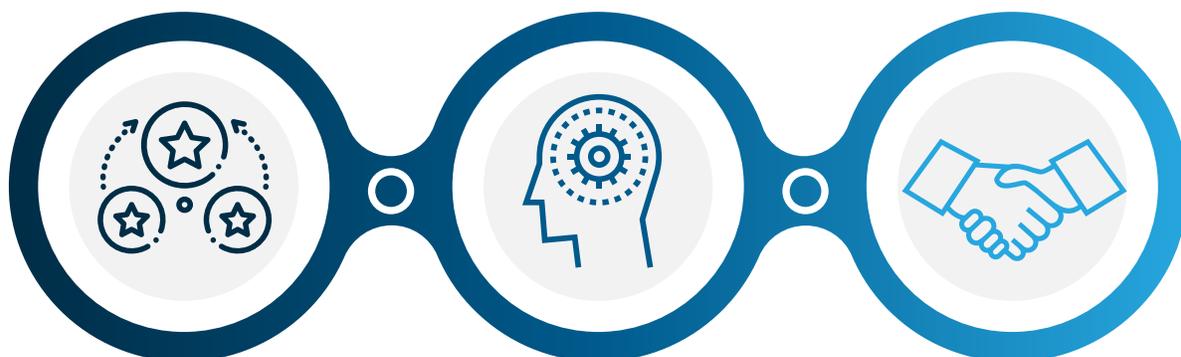
A platform-based operating model has the potential to unlock numerous benefits for carriers. As traditional industry borders dissolve, ecosystems – and the digital platforms that enable them – will greatly influence the future of insurers. Hence, insurance executives should look beyond industry borders to address the growing opportunities and threats that arise from new partners and competitors in the ecosystems that are relevant to them – from mobility to healthcare and from service providers to technology providers and InsurTechs.

The key for insurers to stay competitive in the current market is to shift to a platform-based operating model by imbibing the **adopt, adapt, and ally strategy** depicted below:

EXHIBIT 3

The adopt, adapt, and ally strategy to successfully transition to a platforms-based operating model

Source: Everest Group (2021)



Adapt

Insurers are adapting to changing customer needs by providing the right product, at the right time, to the right target group, and using the right channel at the point of need

Adopt

Insurers are directly incorporating platform-based solutions offered by third-party technology firms and InsurTechs to rapidly respond to competition

Ally

Insurers are partnering or coming together to form an ecosystem or a consortium to benefit all the members involved

Enterprise examples in the stage		
Adapt	Adopt	Ally

Adapt: Customers demand insurance products/services to be delivered at the point of need through the channel of their choice in a secure manner. Insurers need to adapt to this change, as part of which insurance buying and servicing will become seamlessly embedded in the customer journey on a partner channel. Insurers need a scalable, flexible, and agile IT system that can support this evolving market's needs. The embedded nature of insurance requires a platform-based operating model to capture and analyze data in near real-time from partners/customers from different channels and expose APIs that can be integrated by ecosystem partners to ensure a seamless insurance buying/servicing experience.

Adopt: Insurers need to have a strategy for emerging technologies such as blockchain, cognitive computing, IoT, mixed reality, and streaming analytics. A platform-based operating model provides a strong foundation to leverage emerging technologies to support core insurance operations and, thus, drives business value. InsurTechs and BigTechs are democratizing data and analytics technologies and enabling ease of access by offering targeted solutions for the insurance value chain and related use cases.

Ally: Insurers need to partner with ecosystem providers to derive full value from their platform-based operating models. Increasingly, ecosystem partners are creating meaningful value by contributing to open insurance platforms, with the most prominent use cases being data sharing to enhance operations for underwriting, customer onboarding, and damage assessments.



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This study was funded, in part, by Infosys



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