The Insurance Industry is Changing

How are you staying competitive, as the rest of the industry innovates through digital transformation?

Benjamin Franklin, one of our nation's Founding Fathers, started the first American insurance program nearly 270 years ago in Philadelphia, Pennsylvania. Up until the inception of the Philadelphia Contributorship, individuals and businesses alike, were self-funded to handle any additional expense that might occur throughout the year. Over the course of the next century, insurance companies emerged all across the nation, offering various different forms of coverage and working to develop a viable market for the coverage options our industries take advantage of today. Many businesses struggled to stay in business, many others failing entirely, as ample data collection for reserve planning and claims forecasting was otherwise unavailable.

Fast-forward to today – in 2019, the American insurance industry was valued at $1.32 trillion. Of the $1.32 trillion of premiums, 48% was wrapped up in commercial insurance coverage. Driven by data, the modern-day insurance company is able to accurately assess risk and provide competitive premiums, enabling business owners to pay only for what they need. What we are seeing now, is the emergence of automation for insurers and greater transparency for the insured, deepening the industry's emphasis on the importance of relationship building through service.

As technology continues to proliferate across the industry, this trend will rapidly accelerate the need for organizations to invest into their operational platforms. Competitive and market forces are pushing insurance companies to find creative ways to do more with less. What they are finding, is that doing nothing is not an option anymore. Budgets for IT investments have seen monumental growth, increasing by over 33% in 2019 to nearly $6.4 billion, with no sign that funding increases have slowed in 2020. In fact, due to the pandemic, businesses in the professional and business services industry have seen a jump of around 6 years to their technology roadmap - deepening the reliance on technology to derive efficiencies in the business. Which raises the question, why are insurance executives continuing to invest more and more of the OPEX budgets to SaaS and other types of technology?

Up until recently, great products and services, paired with outstanding service, were the foundational elements of a successful insurance company. For businesses operating in niche markets, offering a unique P&C coverage to smaller and underserved industries, this has been and will continue to be a cornerstone of their model. Unfortunately, with adoption of technology and deeper layers of automation, large scale insurance companies are able to compete in unprecedented ways – pushing regional and local providers to reassess their strategy over the next decade.

What leaders within the insurance industry have realized, is that within the life-cycle of any insurance program, there are three core value drivers: **Drive Premium, Reduce Combined Ratios, and Provide Greater Services.** With each of these anchoring principles in mind, they have aligning strategy and operational practices within the business that are targeted at creating measurable outcomes in each area.

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Drive Premium

Direct written premium is the life blood of every insurance program. Maximizing the market share is critical to any business and for insurance companies, there are many strategies for doing so. Carriers and other growth-oriented programs like mutuals, will continue to look for new ways to bring on new customers. Other programs like self-insured groups and funds, are more driven to retain and expand upon the value they bring to their existing members.

Each of these are critical to understand, when evaluating methods for digital transformation. Primarily with regards to how the expectations of customers has evolved. Agents and insureds alike, expect a seamless digital experience from their providers.

Businesses that have effectively gone through digital transformation efforts have reported a 1-2% lift in premium, as well as higher retention rates for their existing customer base. These outcomes have been driven from heightened operational efficiencies that are realized in the underwriting and agency management processes. For many organizations, they are able to create additional focus around strategic initiatives and scale upon their abilities to capture premium, without the addition of additional resources.

This is key, as this opens up opportunities to invest back into the business and help reduce costs through safety, claims management, and better relationships with members.

Reduce Combined Ratios

As the old saying goes, it costs money to make money. It's no different for insurance companies. Operational costs, like people, technology, and infrastructure, stand as some of the biggest considerations for leaders across the industry. Second to these, are the losses incurred by claims throughout the year.

Minimizing both of these is a consistent goal for any program. As businesses digitally transform their business with new solutions to manage the entire life-cycle of a policy, what they realize is multifaceted. Key operational functions, like underwriting and claims administration, are impacted by reducing the amount of time spent performing manual processes, there-by reducing the operational cost of writing a new policy and managing a claim. Through streamlining the process, these individuals are able to be more strategic in their work; focusing on ways to better assess risk and trends across the business. Additionally, leaders are able to derive better insights into their business through the use of data and analytics.

10% Reduction in Time Spent Performing Underwriting Process

A 10% reduction in the time spent underwriting new business and renewals, affords a company many opportunities to better assess risk and reduce exposure year over year.

25% Reduction in Time Spent Managing Claims

Less time spent managing each claim, means more time focusing on how to reduce losses across the board.

OPEX Cost of $800 per Claim

For 100 claims - a small amount of claims, typically reserved for a single person to handle - it costs a company $80,000.

1% Reduction on Loss Ratios with Analytics

Without access to their customer/client/member data, insurance companies can't visualize the emerging trends that are nested within their historical performance.

What if you're able to leverage data to better understand company profiles beyond simple loss ratios?

Are there specific customer's, based upon a common set of correlated demographics, that have higher losses year over year?

Can you collect additional demographic information to better understand these profiles in the future?

Can you offer more targeted services to your customer base?

All of these are viable questions that can be answered through the use of a business's historical data, all of which are unlocked through digitally transforming the core operations of the business.

INSURIUM™

Provide Greater Services

Spurred on by an increasingly competitive landscape, insurance companies have realized that one of the greatest driving factors for attracting and retaining members is the services they provide. Often, these differentiating factors allow for businesses to avoid cutting rates on premiums and drive their combined ratios down. Self-insured groups have built themselves upon this model. Their not-for-profit model incentivizes them to continuously reinvest their funds into services, promoting stewardship amongst the fund; a rising tide raises all of the ships.

As companies invest into technology and automation, they realize that their employees are afforded the opportunity to build greater relationships with members. Increased efficiencies throughout the insurance life-cycle engages underwriters and claims administrators with customers to better assess risk, and immerse themselves in the nuance of each business. They find themselves providing services that are more tailored to the unique circumstances of each customer, curating a more impactful customer experience.

What does this mean for insurance companies and why should they care?

The insurance industry is changing. Companies that invest now, are reaping the benefits of the competitive advantages it brings. Their businesses are stronger and more agile, enabling them to come up with innovative ways to create additional value for their customers. Driving premiums, reducing combined ratios, and providing greater services to customers are a unified goal for all insurance companies to strive towards. They are the core competencies that sustain a business's success in the long term and enable leaders to deliver on their promises to customers. Digital transformation is the next big catalyst for organizations that look to remain competitive and continue to be the best in breed vendor for their services.

Responsible investment into technology is the future. Spreadsheets and paper forms are no-longer scalable processes. Just as type-writers gave way to computers and word processors, these dated methods of managing a business will give way to enterprise technology.

The real question then becomes, as a business leader what are you going to do about it?