How Smart Use of Emerging Technologies Drives Growth and Profits for Insurers

With the smart use of mobility, social media, enterprise collaboration and external delivery of business processes using cloud-based technologies, insurance companies are driving growth and profits.
Executive Summary

Emerging technologies hold enormous potential for enabling insurers to drive growth and reduce operational costs. But not every solution will be the right fit for insurers as they face the challenges of persistent economic softness, intensified competition among carriers and bottom-line and margin pressures.

We see four emerging technologies that stand out from the rest: mobility, social media, enterprise collaboration and external delivery of high-volume, low-touch business processes. These technologies top our list because they move forward-thinking organizations to a more collaborative, flexible and global approach that we call the Future of Work. These technologies deliver the operational efficiencies, customer interactions and pathways to better business decisions that insurers need.

For insurers, the future of work is now. Already these emerging technologies are enabling important business changes for insurers. Carriers are increasingly using mobility, for example, to speed claims processing and enable customer self-service. Mobile applications are also making telematics and VIN scanning more viable.

Social media is a cost-effective marketing tool that’s helping insurers not only increase brand awareness and customer loyalty, but also target the technologically savvy millennials between the ages of 15 and 35 as potential customers and employees.

Virtualization of people, process and technology is enabling the adoption of enterprise collaboration tools that help insurers organize intellectual capital and facilitate knowledge sharing.

Finally, with worldwide access to skilled workers enabling insurers to perform high-quality work at cost-effective locations, new service delivery models such as business process as a service (BPaaS) provide standardized, cloud-based platforms that drive business effectiveness and innovation and lower total cost of ownership.
HOW SMART USE OF EMERGING TECHNOLOGIES DRIVES GROWTH AND PROFITS FOR INSURERS

Emerging Technologies
Mobility and Social Media

Using Mobility to Reduce Operational Costs

Mobile communications are fast becoming the norm. With more than 230 million Americans using mobile devices, on-the-go Internet access is expected to overtake desktop Internet use by 2014.

What follows are examples of ways that insurers are putting mobile solutions to use for streamlining internal processes and improving customer service:

- **Enabling more efficient claims appraisal.** Mobile solutions not only enable quicker dispatch of claims adjusters to sites but, once there, adjusters can assess damage and use mobile apps to provide loss estimates, record the loss information and upload photos and videos. They transmit information to claims management systems for quick processing. The result is a 20% to 30% reduction in claims appraisal time and improved productivity for adjusters. What's more, faster claims cycles reduce the loss adjustment expense per claim.

  A leading property and casualty (P&C) insurer reaped big returns when it deployed a mobile solution for claims appraisers. The appraisers' work process had been antiquated at best: they made handwritten notes during site visits and then keyed in the application information back at their offices. The long cycle times decreased operational efficiency — and customer satisfaction.

  The insurer developed a mobile app that lets appraisers view claims and policies, record loss details, upload photographs and videos and calculate loss estimation details. The app led to a 30% improvement in service level agreements, a reduction of 15 minutes. Within the first year of implementation, the app's adoption rate averaged 40%.

- **Promoting customer self-service.** Insurers such as Progressive and Geico are taking advantage of this trend with smartphone apps that let customers shop for quotes, create new policies, submit payments and initiate first notice of loss (FNOL) requests. Self-service is expected to lower insurers' operational costs as consumers make fewer calls to agents and call centers, and customer support staffs are reduced.

- **Aiding agents and brokers for a more interactive selling experience.** Mobile devices enable a more engaging, streamlined selling experience. Many insurance agents still carry bulky paper binders filled with sales aids or laptops loaded with marketing materials. Mobile apps let them easily guide prospects through the application process, calculate coverage needs and provide policy quotations. Policy applications can be viewed and even signed electronically on the mobile touch screen. John Hancock's i-Illustrate app allows producers to adjust illustrations of their life insurance products in real time, while they're presenting options to consumers.

**Emerging Mobility Trend: Using Telematics to Assess Risk More Accurately**

Mobility is also opening new opportunities for vehicle telematics. Until recently, the burden of installing Internet-enabled transmission devices in vehicles had hindered the growth of usage-based Insurance. Smartphones' popularity could eliminate that hurdle. In fact, insurers may soon partner with automakers to create apps that transmit real-time driving data.

With telematics data, insurers can calculate premiums commensurate with policyholders' actual risk, such as miles driven and driving behaviors (see "The New Auto
Insurance Ecosystem: Telematics, Mobile and the Connected Car). Low-risk drivers will qualify for low-cost insurance. In addition, telematics’ potential for tracking vehicle locations and potentially disabling engines in cases of unauthorized access means it could soon play a role in reducing car thefts.

**Emerging Mobility Trend: Scanning VIN Information for Faster Creation of Quotes**

Insurers are capitalizing on mobile technology in yet another way: Automatically gathering the tedious amounts of information required for insurance quotes. For example, GEICO’s iPad app eliminates the typical quote bottleneck by letting customers scan the vehicle identification numbers (VIN) on their automobiles and then automatically filling in the vehicle’s details.

By reducing the time it takes to generate quotes, mobile features such as scanning and auto-fill make it easier for consumers and insurers to process quotes – and potentially increase new business sales for insurers.

**Social Media Improves Marketing ROI**

Just as mobility provides insurers with new opportunities to reduce operational costs, social media opens new avenues to both save money and build brand awareness and market share. To stay competitive, insurers are fueling their marketing efforts with fresh budget increases. P&C insurers increased their advertising budgets an average of 14.9% in 2011. State Farm and Farmers Insurance each upped their budgets almost 30%.

But as traditional media costs climb, insurers continually look for low-cost marketing channels to keep down the expense ratio. Social media fits the bill: Marketers view social campaigns as more affordable than traditional media counterparts, according to a 2011 reader poll. For insurers targeting millennials, social media is an especially effective marketing platform. Forty-eight percent of millennials turn to the Web first to gather insurance quotes and purchase or renew policies.

When Farmers Insurance launched a novel advertising campaign on Facebook’s popular FarmVille game, its fan base quickly reached 37,500. The campaign’s purpose? To target the large chunk of FarmVille players who are stay-at-home moms and typically in charge of insurance-buying decisions.

Esurance, which specializes in direct sales to consumers, recently started offering a 10% discount on auto policies to Texas residents who “like” the company on Facebook. Esurance strategically selected Texas for the social-media campaign: The Longhorn State has the U.S.’s second largest Facebook population.

Aflac has been especially creative. To increase awareness of its products and services, it launched “The 10 Second Challenge” on Facebook, YouTube and Aflac.com, offering a $25,000 grand prize for the best 10-second video describing Aflac’s value. Within the first two weeks, the insurer acquired 170,000 new Facebook fans. The grand prize for Aflac? More than 100 consumer-produced videos featuring the Aflac brand that the insurer could leverage in other marketing initiatives.

Social media marketing lets insurers improve their advertising-to-premiums ratio and increase campaign effectiveness and reach.
Using Social Media Data to Combat Fraud

Social media is all about data: The average Facebook user creates 90 pieces of new content each month, and Facebook users share more than 30 billion pieces of content daily. For insurers, the data represents a wealth of information for investigating the fraudulent claims that account for 10% of the P&C industry’s loss adjustment expenses, according to the Insurance Information Institute.

Claims investigators could flag a variety of content on social networking sites such as YouTube, Facebook and Twitter for further scrutiny:

- A policyholder who claims to be a teetotaler when signing a life insurance policy but uploads photos of himself on Facebook drinking in a bar.
- A disability-benefits recipient who tweets about successfully running a marathon.
- An automobile owner who posts photos of a car garaged in a new home while still paying a premium based on residency in a lower rate area.

Emerging Trends in Social Media: Cost-Effective Market Research

In addition, insurers are increasingly using social media as a platform for affordable, effective market research. By asking customers to rate new product offerings and encouraging product and marketing ideas, insurers are creating a pool of feedback for use in improving products and time to market.

USAA regularly uses social media to invite customers to rate and review its products and services. It then makes the comments available to product managers. The rankings and reviews are an essential part of its social strategy.

Enterprise Collaboration

Better ROI: Cutting Through the Clutter and Promoting Better Decision Making

Like social media, collaboration emphasizes sharing. But collaboration’s sharing targets a different purpose: making better decisions based on access to better information.

For insurers, however, organizational challenges often complicate collaboration by making information hard to find. Knowledge is scattered among systems, documents and e-mails. Worse, much expertise remains undocumented, residing within insurers’ employees. That’s a problem as more sales agents near retirement – their average age is 55 – and the hiring pipeline’s flow of younger agents to replace them is inadequate. In addition, insurance teams are becoming increasingly virtual, thereby limiting the knowledge transfer between seasoned and new workers.

Enterprise collaboration tools counter those challenges. By capturing employee experiences, skill sets and interests, and organizing documents and e-mails, they eliminate bottlenecks and help insurers make smarter decisions.

Increasing Operational Efficiency

To evaluate the risk associated with policy applications, for example, underwriters typically spend 20% to 25% of their time searching for subject matter experts (SMEs) in claims and sales agencies, or for information in loss run reports and
underwriting guidelines. Workers unsuccessful at finding SMEs risk making time-consuming and poor decisions.

The use of enterprise collaboration tools will free up employee time spent on locating the right information and verifying its accuracy, leading to reduced response time to resolve business issues. Moreover, because many collaboration suites integrate with Web and video conferencing tools, they enable virtual meetings that can increase productivity and reduce travel expenses.

Global reinsurer Swiss Re experienced the power of enterprise collaboration firsthand. It had struggled with the loss of intellectual knowledge due to attrition, reduced travel budgets and knowledge workers spread throughout its global offices. It needed to build its intellectual property and reduce operational costs.

Using collaboration tools that let employees form virtual teams, the company expanded its risk knowledge base and produced additional risk-related publications. It also hosted more virtual meetings and cut travel costs. Seven weeks after the new tools’ launch, 61% of potential users were on board and had enthusiastically formed 375 project groups.

Tracking Innovation and New Ideas

The latest trend in collaboration is using it to track new ideas by integrating collaboration suites with idea-management tools. The more systematic approach to innovation provides organizations with a 360-degree view of the idea lifecycle. Employees share and submit ideas that are then ranked and prioritized based on the number of votes received and the ideas’ alignment with strategic goals. Proposals are drafted. Each idea’s implementation is tracked, and its ROI measured.

Integrating collaboration and idea management motivates employees to create idea pipelines. They become engaged. Allstate Insurance employees generated 2,500 ideas after they began collaborating with Spigit idea management software. This new way of working helped Allstate reduce its product development cycle time by up to eight weeks and to successfully implement ideas including claims leakage improvements, employee recognition concepts and mobile phone applications.

Mobile Collaboration

Mobile collaboration is the next frontier. As the speed of decision making in the always-on world grows faster, collaboration software developers are beginning to enable mobile features that allow real-time access to internal wikis, forums and blogs – key improvements given that the mobile workforce will account for one-third of the global workforce by 2015, according to market research firm International Data Corporation.

Using mobile editing apps, employees can edit documents while they are out of office, and save them onto the network using a file synchronization service. Using mobile devices, employees can also make voice or video calls, click to chat from the contact directory and convert a chat into a full-fledged meeting.
Business Process as a Service

Opening New Opportunities for Insurers

For insurers, empowering employees to be more productive and make better decisions also means exploring opportunities for external delivery of routine processes. BPaaS offers carriers the opportunity to partner with an expert third party on high-frequency, low-touch business processes such as quotes, applications, rating and processing renewals. As a result, key internal resources are freed to support or extend a carrier’s core competencies.

Emerging technologies are at the heart of BPaaS. Providers leverage cloud-based platforms and deliver services that weave together the best aspects of IT infrastructure, applications and business process smarts. They manage the services and delivery and, equally important, offer a pay-by-use model so insurers require less business and IT support staff.

One-third of insurers are replacing or planning to replace their policy administration systems, reports Novarica, a New York-based research and advisory firm.19 Midsize P&C insurers spend an average of $4 million to $6 million building a COTS-based billing system (customer payments, agency payouts) for one line of business and a single-state rollout.20 Outsourcing the function to a BPaaS provider could save the insurer approximately $1.3 million to $2 million.

For smaller insurers, the BPaaS model offers important advantages. Smaller carriers can bypass upfront investment in new technologies yet gain access to new capabilities without adding to their in-house payroll. Small and even medium insurers could save 25% to 40% by deploying business functions on a BPaaS model, according to estimates by Everest Group, an advisory and research firm on global services.21 Larger insurers’ initial savings over the traditional IT/BPO model will be a more modest 10%21 due to the high transaction fees that their greater business volumes incur. Increased competition among BPaaS providers, however, could eventually lower those costs.

Insurer Gains Big Benefits

Already, insurers are capitalizing on the opportunities BPaaS offers for standardizing business and IT processes. At a leading P&C commercial insurance company, for example, producers’ new business applications had been a jumble of inconsistent forms and data formats,22 with the insurer manually entering much of the data into its own system. Decision times lagged. Customers complained.

With a BPaaS intake and processing solution, agents and brokers submit applications in 70% less time. The underwriting team saves 3,000 hours of reviewing the quality of submitted data. Even better, by outsourcing data preparation, the P&C commercial insurer is able to screen 30% to 40% more new business transactions.

Focus on new business growth is an important benefit of standardizing insurance processes. When a life insurer found that its multiple customer service centers led to high costs, missed selling opportunities and customer dissatisfaction, it hired a BPaaS provider to manage its customer service function using the pay-by-use model.23

The BPaaS provider manages the life insurer’s business and IT operations and set up a center of excellence in India. The scalable customer service center handles customer inquiries, records FNOL transactions and customer complaints and re-directs calls to agents or claims personnel for cross-selling opportunities and claims handling.
The life insurer saw operational costs drop 25% in the third year of implementation, and cross-selling of annuity products rose 20% in the fourth year. Employee satisfaction improved by 30%. And, perhaps most important for all growth-minded companies, the insurer’s surveys indicated improved customer satisfaction.

**Trends in Insurance BPaaS**

**Emerging Destinations**

India, the Philippines and China dominate the outsourcing insurance market. Other nations, however, are also making aggressive pushes into the $4-billion outsourcing market by changing laws and offering incentives to lower outsourcing costs (see Figure 1).

### Emerging Destinations for Insurance Outsourcing

<table>
<thead>
<tr>
<th>Key Factors Driving BPaaS Sector Growth</th>
<th>South Africa</th>
<th>Vietnam</th>
<th>The Philippines</th>
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<tr>
<td><strong>Cost Competitiveness</strong></td>
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<td>Estimated 2012 salary of IT/BPO worker</td>
<td>$47,000 (40% to 50% less than the UK and U.S.)&lt;sup&gt;24&lt;/sup&gt;</td>
<td>$10,000 (90% less than the U.S.)&lt;sup&gt;24&lt;/sup&gt;</td>
<td>$17,500 (70% to 80% less than the U.S.)&lt;sup&gt;24&lt;/sup&gt;</td>
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<td>Tax considerations</td>
<td>Business processing centers that create jobs locally receive tax benefits of 20%.&lt;sup&gt;25&lt;/sup&gt;</td>
<td>Corporate taxes average 25%, lower than tax rates in Thailand and the Philippines.&lt;sup&gt;27&lt;/sup&gt;</td>
<td>IT BPO centers receive an income tax holiday (ITH) of four to eight years, and special tax concessions.&lt;sup&gt;29&lt;/sup&gt;</td>
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<td>Other factors</td>
<td>Telecom costs fell 85% from 2003 to 2009. Annual decrease of 15% to 25% is expected over the next five years.&lt;sup&gt;26&lt;/sup&gt;</td>
<td>High-quality telecom and low-cost real estate contribute to national goals of increasing the share of the global IT outsourcing market.&lt;sup&gt;30&lt;/sup&gt;</td>
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<td><strong>Skilled Labor</strong></td>
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<td>Annual number of English-speaking graduates</td>
<td>345,000, second only to India and the Philippines.&lt;sup&gt;26&lt;/sup&gt;</td>
<td>244,000; 61,000 specialize in science and technology.&lt;sup&gt;27&lt;/sup&gt;</td>
<td>500,000, second only to India.&lt;sup&gt;30&lt;/sup&gt;</td>
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<td></td>
<td>80% of students hold degrees in software development. English is the second most popular language.&lt;sup&gt;28&lt;/sup&gt;</td>
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<td><strong>Economic and Political Stability</strong></td>
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<tr>
<td>GDP growth rate average</td>
<td>2.7% over past five years. Political and economic climates are stable.&lt;sup&gt;31&lt;/sup&gt;</td>
<td>6.6% over past five years, second to China among Asian countries. Main cities poised for BPO placements are Hanoi, Ho Chi Minh and Hue.&lt;sup&gt;31&lt;/sup&gt;</td>
<td>4.6% over the past 5 years. The country’s political climate is relatively stable.&lt;sup&gt;31&lt;/sup&gt;</td>
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**Business Process Functions as Candidates for BPaaS**

Shifts are also expected to occur in the type of business process functions that insurers outsource. U.S. insurers typically outsource policy administration and servicing, claims administration and customer support. As the BPaaS industry
matures, however, major providers are positioning themselves as high-value business partners and offering more knowledge-intensive processes such as advanced analytics and actuarial services.

Analytics processes that insurers may outsource include:

- **Customer analytics.** Service providers can gain insight into customer behavior and trends that results in more careful targeting of customers for cross-selling and up-selling. Analytics can also help predict attrition of existing customers and study the profiles of customers who defected. As a result, carriers can improve product offerings and customer retention strategies.

- **Risk management analytics.** Insurers can leverage BPaaS providers to analyze more granular risk groups. By calculating risk measures for new segments, insurers can determine more accurate premiums.

- **Actuarial functions.** Faced with a shortage of actuarial staff and the need to reduce operational costs, insurers could outsource premium calculation, loss reserves estimation and cash-flow projection. In addition, they could outsource standard reports for regulators in coordination with the accounting and finance teams.

**Put Emerging Technologies’ Interconnected Drivers to Work**

Emerging technologies help insurers find new ways of doing business. Embracing fresh business models and ways of work, however, can be challenging in a conservative industry such as insurance. The good news is that like the four emerging technologies discussed here, the drivers of change are often interconnected so that change, when allowed, can ripple through organizations.

Successfully adopting emerging technologies requires organizations to be collaborative, flexible and global – all qualities that every insurer needs to embrace. Because the next emerging technology, like the future of work, is always close at hand.

**Footnotes**


3. Based on Cognizant’s experience in mobility engagements for a large P&C insurer.


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