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Next Wave Insurance:
Daring to be Different

A Reuters Events white paper featuring detailed insights from Liberty Mutual Insurance, Nationwide and low-code development platform Mendix

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Introduction

Make no mistake the multi-trillion-dollar global insurance market of the future will be different. Notwithstanding a surge in new Covid-19 strains, carriers are having to step up to a diverse and intertwined set of risks – from surging natural catastrophes and ransomware attacks to talent shortages, regulatory hurdles, shifts in consumer behaviour, and the potential for continued inflation. However, as the industry continues to automate and innovate, there will be abundant opportunities too for those that put societal needs and their customers at the heart of risk models of the future.

Sandeep Haridas, Vice President and Senior Manager, Liberty Mutual Insurance, understands this. "As the world around us and customer expectations evolve, it is so important for us not to miss a beat or a signal that our customers, or our brokers, or the market is giving us," says the man responsible for digital strategy and transformation in the group's North American Global Risk Solutions (GRS) division, a $7.16-billion premium generating business.

At Ohio-based insurance giant Nationwide, Amy Shore, Executive Vice President and Chief Customer Officer, has a similar view: "Things are evolving so rapidly in the digital strategy space, the risk is that if you are wrong today, 24 to 36 months from now, you're going to be way behind."

As priorities jostle, and digitization accelerates change, how do carriers today shift the customer's perception away from seeing insurance as a 'grudge purchase'? From his vantage point as the Global Industry Principal for Insurance at Mendix, Paul Fondie says: "Changing how insurers develop software to an agile approach gets them in the game by focusing on the end-user and ultimately delivering a purchasing experience that is more in line with customer expectations. Reducing development time with low-code and getting apps to the market more quickly keeps insurers in the game. But having an enterprise low-code platform that offers an organization the capability to build truly customer-focused native mobile apps without investing in a specialized skillset, is what can help insurers win over the current market and stay competitive in the long-run."
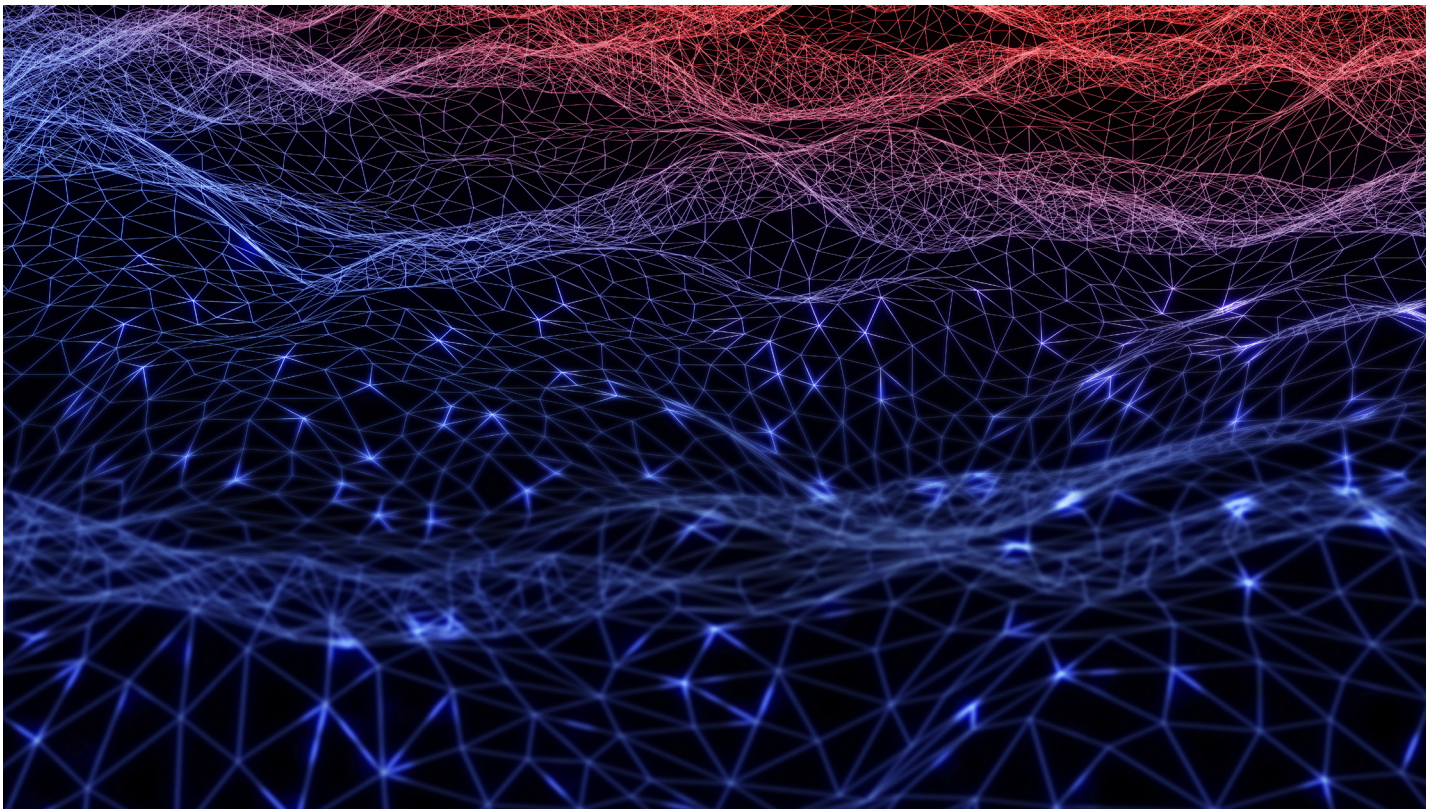
Section 1: Putting the customer back in the center

The first step is to put the customer back at the center of everything and this means much more than improving one or two aspects of the journey – customer service or customer experience (CX). On this latter score, insurers have made progress, according to a recent report from IBM, which finds that 85% of insurance executives are deploying CX initiatives to "at least a moderate extent".

At Liberty Mutual, an American diversified global insurer and the third-largest property and casualty (P&C) insurer in the United States the focus, says Haridas "has been primarily on driving amazing claims experiences". Perhaps unsurprising given this explanation from Deloitte: "Claims are by far a P&C insurer's biggest cost component, as paid losses combined with investigative and settlement expenses accounted for around 70% of U.S. premiums collected in 2021."

If insurers 'moderate' CX efforts are too focused on costs it shows – 42% of consumers who responded to IBM's survey say they still lack trust in their insurer. Creating a best-in-class experience for your customers has never been more important – but it can frequently fall on the backburner to more 'urgent' cost concerns. "Easing experiences across not just clients, but the agents and brokers who manage relationships, needs to be unpacked and prioritized," Fondie says. One of the reasons for this is that traditionally the customer relationship has been left for agents and brokers to manage but spurred on by competition.

However, there are signs of change and at Liberty Mutual a broader definition of the customer is emerging. Haridas explains: "We are moving beyond delivering amazing experiences to clients, brokers and agents, and have added third-party claimants and injured workers to the mix." Today, through Liberty's award-winning portal, these new claimants can receive direct payments, helping them to

recover faster. In the U.S., Nationwide too is beginning to introduce a digital payment facility through Chase Bank in order to facilitate faster direct customer payments.

Data and the ecosystem

At Nationwide, data is at the heart of building customer centric solutions.

According to Shore, in an ideal world every customer interaction will be underpinned by real-time data, that is accessible everywhere, can be applied for the customer's benefit within the boundaries of regulation, and can be moved seamlessly through the ecosystem. "As the customer moves through all the swim lanes – from mobile to app to chatbot to human - the data must move with them," she says.

Liberty Mutual advocates a technology agnostic approach. "This allows us to be far more specific about the experiences we wish to drive," says Haridas, who sees the ecosystem of the future as being "a lot more connected than it is today". Its commitment to moving 90% of its payload to the public cloud is an important part of its strategy as well as the adoption of application programming interfaces, which is the "next revolution to take the industry by storm".
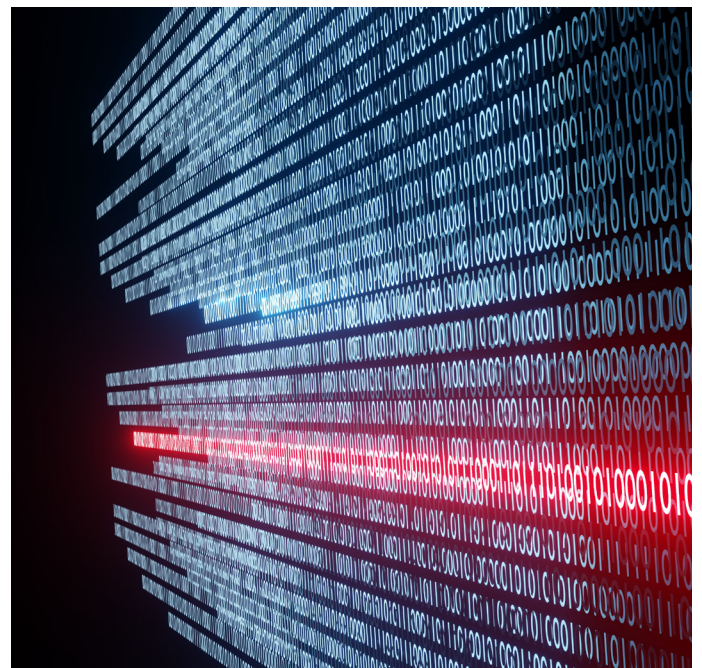
Three ways Liberty is driving customer centricity

At Liberty Mutual customer centricity is defined as "being where the customer is at every stage of their journey, and also being able to create custom interactions based on how they want to do business with you".

Some of the ways this is being enabled include:

- A robust API strategy: By the end of this year, a robust set of APIs, will enable any trading partners in North America to interact in a far more secure way than via email submission. However, brokers who still want to send submissions traditionally but expect policies and proposals to be returned through more secure digital channels are also accommodated.
- New B2B channels: It has built relationships with insurtechs like quote and bind platforms and, a P&C insurance exchange matching distributors with providers.
- Self-service: Investing a "very decent amount of money" into building more robust and simpler to use RMIS (Risk Management Information Systems) capabilities means customers can do a lot more via self-service. This includes: checking claims trends, understanding how a claim is progressing, and the impact on premium is possible.

Section 2: Purpose, process, and pricing

Simply put, some insurance journeys like personal auto insurance are well suited to automation, some require a bit of both, while others may need a human-to-human touch. However, to deliver on Nationwide's promise of being "people connected, technology enabled," all customer interactions must be data-driven and underpinned by robust digital processes. This has been central focus at Nationwide where, says Shore, "the modernization of core platforms has already led to significant advances".

Technologies like artificial intelligence (AI), machine learning and predictive modeling are helping to drive customer centricity. "However, having a platform that connects to AI tools will speed up the buying process for customers and perhaps even improve the assessment of the risk," says Fondie.

Trend spotting

If a company is to succeed in its defined purpose, there is usually a reason for doing so, and this means spotting trends and opportunities early. Demand for usage-based insurance (UBI), forecast to surpass $125-billion by 2027, is one trend that has emerged from the changing nature of mobility and car ownership.

Nationwide was an early mover in personal auto, in 2020 partnering with Toyota and Ford to harness the power of telematics to gather data about how a vehicle is driven and maintained. It is now able to offer personalized discounted premiums for those who drive safely. Through its $350-million Nationwide Ventures fund it continues to look for high growth opportunities. Most recently it has invested in Insurify, an AI-powered comparison platform that allows customers to compare quotes, coverage and policies from Nationwide, as well as other insurers.

Meanwhile, the market is becoming increasingly competitive with technology companies like Tesla offering insurance based on real-time driving behavior. A recent survey from Accenture, for example, found that in 2020 consumers are more likely to consider buying insurance from online service providers like Amazon or Google than they were in 2018 (27% vs 22%); the same was true of supermarkets and other retailers (24% vs 18%).

With this in mind, Fondie argues that insurers must find ways to inject information much higher up in the customer journey. "We typically limit our thinking to what we know, instead of what the customer would like to have happen," he says.

Two steps to a better process

Improving processes is complex there are three things that Fondie believes insurers should do now:

1. Separate the experience from core systems. Core systems are meant for administration and ensuring the details of a customer's insurance are correct. However, core systems are not able to facilitate different customer experiences and changes are slow to be implemented. It is why at Mendix, Fondie says, you can efficiently implement experience layers on top of core systems, giving customers a much simpler interaction from buying, changing, or renewing a policy."

2. Reframe thinking, test often and test quickly. In truth, nobody has the perfect answer the first time around. So, make some thoughtful assumptions about the experience, lay it out and build on those layers. Getting into an agile mind set of rapid testing and learning is essential. Developing solutions differently is key to being agile and freeing up resources to iterate on the customer experience.

3. Bring teams together to develop what the customer needs. Building is no longer the exclusive purview of the professional developer. New tools and technologies have opened up collaboration touchpoints to knowledge workers not trained in traditional coding – making building faster and more cost-effective with the voice of the

business involved throughout. With IT and the business in close collaboration, the voice of the customer comes closer to the development process.

Pricing dilemmas

Consumer surveys on pricing transparency usually find that customers want it. For example, a recent one by Healthsparq, a marketplace for healthcare plans, finds that many people (83%) want accurate information on out-of-pocket costs before using healthcare services.

As customers demand more, insurers cannot always discount or give a customer something different, but they can harness AI, IoT, big data, and telematics to start a conversation: Instead of bringing out pricing transparency and showing the car owner what they are doing, change the model and show them how what they are doing compares to the norm.
In other words, differentiate on how the service is sold, and give the customer something they can control.

What is holding some insurers back is the belief that they do not have enough data, but with AI, Fondie says, "you don't need to have the data, because the data is already there". Global insurer Zurich, for example, has already proved what is possible by using Mendix's low-code platform to build its FaceQuote, a 'selfie' app that uses AI to determine rating factors and quote on life insurance almost instantaneously.

Section 3: People, partnerships and preparing for the future
The turbulence in the U.S. job market, and the war being waged for talent as the pandemic weary re-evaluate their work-life balance, has focused attention on people. At Nationwide, Shore says: "We are investing millions into our Future of Work Program and are focusing on building the digital competencies and capabilities of all of our associates."

This is a wise move. Deloitte's latest global insurance industry outlook finds that 43% of respondents are finding it harder to source skills across a number of functional areas and the top five – AI and

machine learning, cloud engineering, data science and analytics, software development and cybersecurity – are all technology related.

How to strike the right balance between domain and technology expertise is the million-dollar question but for Haridas, the best teams are diverse, in rank, in gender and in cross-industry expertise. In his view, a good data science team has one insurance domain expert, and several "hard-core" data scientists "who can see data for what it is but are creative enough to find new uses for it".

Skills are also in short supply on the frontline, in call centres for example. While technologies like robotic process automation have eliminated transactional functions, Shore says agents "must now understand where the data comes from, how it is used, what digital tools are offered and how they work". Speaking from a position of knowledge builds trust and this is important, according to an Accenture consumer survey which finds that 49% of people place trust in a human advisor while only 12% feel the same about an automated or digital response. Fondie underlines the point: "An insurance company, without a proper set of trust standards, is one that usually doesn't keep customers for long".

Build or buy

The modernization of core systems is a complex and long-term project so the challenge for carriers is to find ways for business and IT teams to work together to deliver the best of both worlds. As a self-confessed 'unicorn', Haridas is one of those rare individuals with both deep technology and business expertise. Responsible for digital strategies for everything from product to underwriting, distribution and CX technologies, before making any decision, the following questions must be answered: why this is so important; when is it needed by and how much do we invest? "We then work with our IT partners to define the how," he says.

A key decision for any carrier is whether to buy or build in-house. Through a thoughtful balance of build and buy your organization can continually evolve, upgrade, and innovate. With low code you can connect disparate systems, gain a sharper competitive edge through

new tech, and adapt to a landscape of constant disruption. All of this without adding to your legacy and technical debt burdens. "Your organization must challenge conventional wisdom and traditional choices to thrive and compete", says Fondie.

Additionally, when deciding which partners to work with, there are pros and cons to both. At Nationwide, highly differentiated experiences, or those that deal with confidential or proprietary data, doing it in-house makes sense. But the group also uses external partners to fill gaps and advance projects quickly.

Like many incumbent carriers, Nationwide has looked to the booming insurtech market, forecast to be worth $119,4-billion by 2027, for new ways to meet its customers need. In the U.S., it is working through its venture capital fund, with a number of insurtechs that, for example, can accurately estimate vehicle or property damage from photographs, by accessing "millions and millions of examples, and data points".

Fondie advocates instead of seeing innovative companies like Bolt, Bold Penguin and Lemonade as competitors, incumbent insurers should be thinking how they can adapt what they are doing to their model and make it work. With Mendix, carriers can innovate, test, and deploy at unprecedented speeds without breaking governance and critical processes.

Conclusion

In 2020, according to Gartner, 90% of organizations had appointed a chief customer experience officer or equivalent. So, it is clear that organizations are taking the customer seriously. However, at this time of change and uncertainty, with growing competition from unexpected corners, it is vital that insurers do more than pay lip service to the needs of their customers.

Now is the time to stop thinking about customers as nothing more than policyholders requiring service at the point of billing, claims or renewals.

Looking to the future then, carriers must first and foremost decide and define how and why they are different. This is a vital step in knowing what digital, customer-centric products and solutions to build. Technology can help to optimize and manage costs, freeing capital to continue on the road to transformation. At the same time, an industry on which individuals and companies rely in tough times, must strike the right balance between being steady and dependable, and fast and agile. Streamlining processes and partnering wisely will be vital because change is inevitable, and insurers must be quick.