



# Insurers Spin Digital Strategies

# Table of Contents

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03.....	Abstract
04.....	Going Social
04.....	Increasing Mobility
06.....	Analytics Driven
06.....	Cloud Cover
07.....	Conclusion
08.....	About the Author
08.....	References
08.....	About Wipro Ltd.

## Abstract

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The driving forces for digitization are changing demography, disruptive technologies such as Social, Mobile, Analytics and Cloud (SMAC) and economic benefits. The Gen-Y, who is always connected, highly social and adept at digital technologies, is the new category of consumer that will constitute a considerable portion of this. They look for an “always on” kind of relationship with businesses, friends and colleagues from anywhere, anytime and on any device. To penetrate this market segment, insurers will need to digitize their value chain, provide personalized insurance and enable seamless customer experience across channels.

The digital world will impact insurers' existing business models and IT landscape extensively, requiring them to develop comprehensive digital strategies to remain competitive and profitable. In this paper, we shall examine the impact of disruptive technologies on insurers' value chain.

## Introduction: On Crest of Data Wave

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As consumers become more digitally driven, the number of channels and data grow significantly for insurers. Emerging technologies such as wearable devices and telematics provide new kind of data on health metrics and driving patterns. The new data will get integrated with underwriting processes to assess risks efficiently. The premium will vary based on driving behavior and health metrics. The insurers may lower the premium or provide value-added services to the insured, with good driving records and sound health to retain them longer. These technologies will change the insurance business models.

The insurers understand the impact of disruptive technologies on their businesses. Thus, they have started the digital journey by transforming the foundation IT architecture first so as to remain competitive and efficient. Foundation IT architecture initiatives include replacement of legacy administration platform with Commercial Off the Shelf (COTS) packages, increase in digitization percentage for inbound and outbound communication, business process automation, process and product standardization across regions/countries etc.

Digital architecture, which is gaining traction today, will be the extension of foundation IT architecture. The architecture will address business and IT strategies for SMAC, telematics, wearable devices, etc. From a business perspective, insurers will define the next

generation product portfolio, risk and pricing models, fraud detection algorithms and amend the underwriting standards and guidelines for emerging technologies.

## SMAC Time: Weighing the Impact

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Let us explore how disruptive technologies will impact the insurance business and their IT landscape.

### Going Social

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Insurers are using social media for marketing, recruitment and branding purposes, among other initiatives. They are increasing budget for digital marketing year-on-year to accommodate new channels, new devices and new technologies. The purpose is to increase the impact of social media on their value chain.

Data from social media channels (such as Facebook, Twitter and LinkedIn) can be used for sentiment analysis cross sell/up sell, fraud

detection etc. Insurers can use Natural Language Processing (NLP) and text analytics tools on social data as well as speech analytics on call center conversations to improve customer service. Text and speech analytics in near real-time environment can help insurers find new opportunities for cross-sell/up-sell.

### Increasing Mobility

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As mobile devices continue to proliferate, agents, clients and the Gen-Y would prefer to have life, health and auto insurance mobile apps on various devices to enable an “always on” relationship with insurers. Insurers are adapting to these changes and have rolled out basic mobile apps to spruce up sales. However, there is a need to enable the entire insurance value chain for life, health, auto on various devices to penetrate this segment and increase profitability.

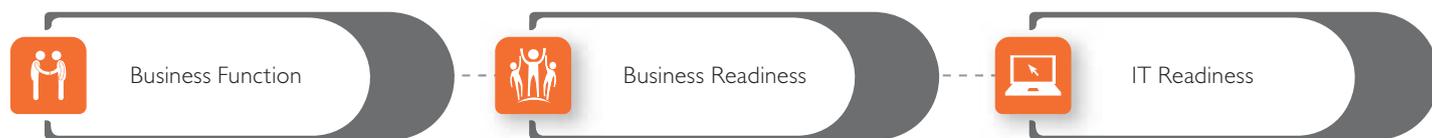
On the architectural front, the insurers may prefer a tactical solution, that is, reuse or refactor of existing Web applications (based on HTML, CSS and JS) for mobile devices to prompt reuse and save costs. Some would develop a comprehensive mobile strategy for an

enterprise. The various mobile application architectures are Native App, Mobile Web App and Hybrid App.

Even though the Native App developed on cross platform frameworks and tools (such as Apache Cordova, Photongap, Sencha Touch, etc.) scores high on usability and performance, organizations may prefer the Hybrid App to reuse existing assets.

The mobile architecture strategy will differ for each insurer based on their needs, criteria and budget for the program. Figure 1 summarizes business and IT readiness across the insurance value chain to address the strategy in a holistic manner.

Figure 1: App-titude Test



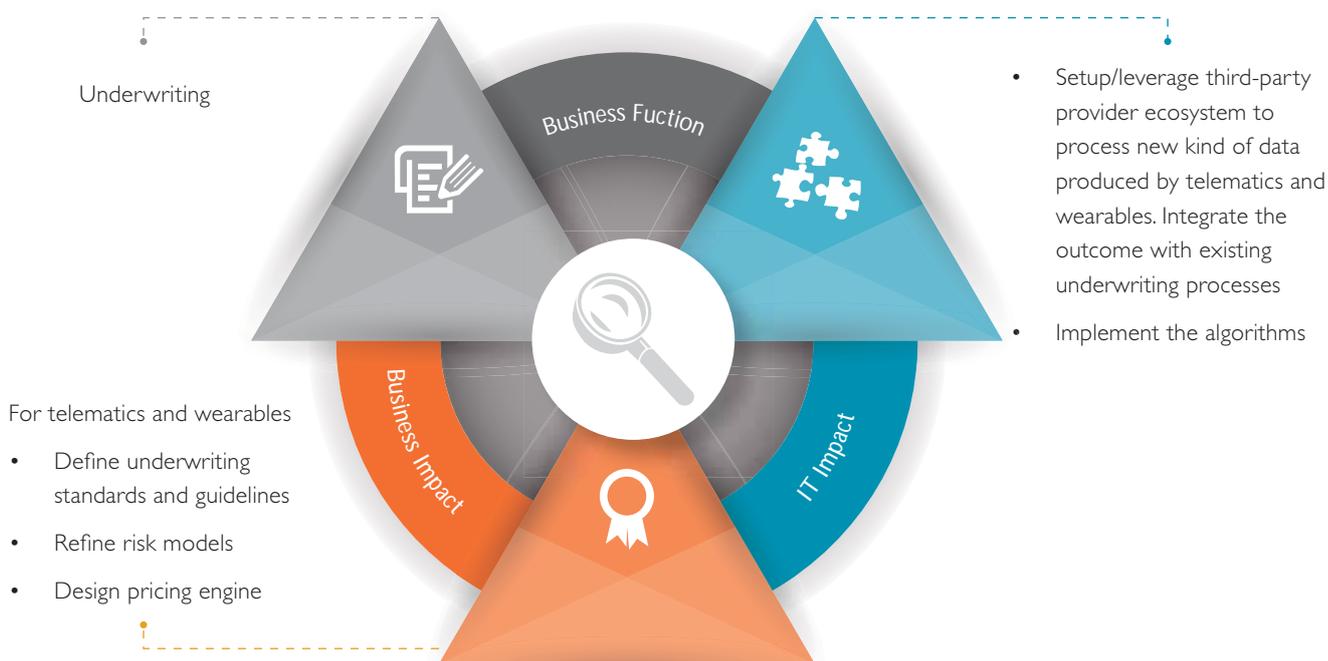
Marketing and Sales	Insurers' look to increase the budget for digital marketing to accommodate new devices	Need to provide a comprehensive sales app for agents on various devices. The app will include video, graphs, scenario analysis etc. to improve productivity
New business administration	Design next generation product portfolio for Gen-Y	Provide new business apps for agents and customers. The app will cover quick quote, full quote and policy issuance capabilities. Some of the fields will be auto populated by using mobile native resources and Optical Character Recognition (OCR) engine
Underwriting	Refine the existing risk and pricing models	Enhance risk and pricing models
Customer Servicing	Tele underwriting effort might increase for mobiles. Clients would fill in the basic data in the application form and would call customer services to share the remaining data. The insurer may have dedicated CSRs for mobile channels	Provide comprehensive policy servicing app to support changes to existing policies such as address and beneficiary change, change in coverage, renewal, etc.
Claims Administration	Develop next generation fraud detection algorithms	Provide a comprehensive claims app to support requests from mobile devices. The app will also leverage the mobile native resources such as camera, GPS, storage, OCR engine, etc., to auto populate, automate and simplify processes

## Analytics Driven

The insurance industry relies on historical data to assess client risks. Once underwritten, the client pays an agreed premium throughout the policy period irrespective of risk variations. With telematics and wearable technologies now it is possible to gather the driving behaviors and health metrics of insured in real-time during the policy period. Underwriters can use the data to re-assess the current risks and re-calculate the premium for current risks at regular intervals.

The telematics and wearable technologies such as wrist band, blood pressure and glucose, fitness and heart rate monitoring gadgets etc. will generate large data sets in Zetta/ Yotta bytes or beyond. The data will include structured, semi-structured and unstructured data. The insurers will either setup/leverage third-party providers to process the new kind of data (such as Hadoop or Cloudera or Big Insights) to find the patterns from the unknown data for decision making.

Figure 2: Telematics Terrain



## Cloud Cover

To reduce the operational cost, insurers are evaluating utility model (BPaaS)/shared services model for both open and closed book of businesses. Due to regulatory requirements, both the models will be deployed on Private Cloud for lower risks and higher data security.

The shared services model will standardize the products and processes across the branch offices, enable shared IT infrastructure and IT teams for global insurers. The shared services model will enable core localization business model between corporates and their branch offices. The core application will be funded by the corporate and localization will be paid by individual branches. Each branch office will inherit the core business processes and product implementations from

the corporates and localize them for their branch as required, thus reducing operational costs significantly. Some of the insurers are using on-premise/Private Cloud solution for shared services model.

In the utility model, the insurers outsource policy or claims administration to Third Party Administrator (TPA). The insurers will either de-commission the existing IT infrastructure or monetize the platforms as required by businesses. The administrative cost will be based on variable pricing model and policy volumes, open and closed books of business and servicing windows. Depending on the business needs and servicing cost, TPAs will typically run utility models in multi-tenant model.

## Conclusion

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Even though disruptive technologies impact insurers' existing business models, they provide an opportunity as well to understand clients better, personalize products, thereby increasing customer loyalty and retention. The technologies will enable insurers to be always connected with clients and context aware.

The legacy systems are compelling insurers to be competitive, efficient, cheaper and smarter. The product roll-out is time consuming and the customer experience varies for different channels. The insurers are addressing digital world needs by a three-pronged strategy. They are transforming the foundation IT architecture, defining the digital architecture and defining the next generation

product portfolios, risks and pricing models.

Foundation IT architecture transformation will enable insurers to roll-out the customized products in weeks and improve straight through processing. The digital architecture will enable insurers to process and co-relate the large datasets produced by disruptive technologies for better risk management and higher customer retention.

The disruptive technologies present an opportunity for insurers to improve their profitability and branding.

## About the Author

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**Saraswati Pramudi**, with 20-plus years of IT experience, is a principal consultant at Global Enterprise Architecture Consulting Practise. She has architected, designed and implemented several complex enterprise applications for investment banking and financial services. Saraswati, a practitioner of TOGAF methodology, SOA and model-driven architecture, has led many architecture definition initiatives for clients. She has also evaluated policy administration platforms and has conceptualized BPaaS solutions for insurers. She is LOMA and TOGAF 9 certified.

## References

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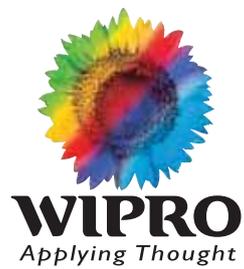
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