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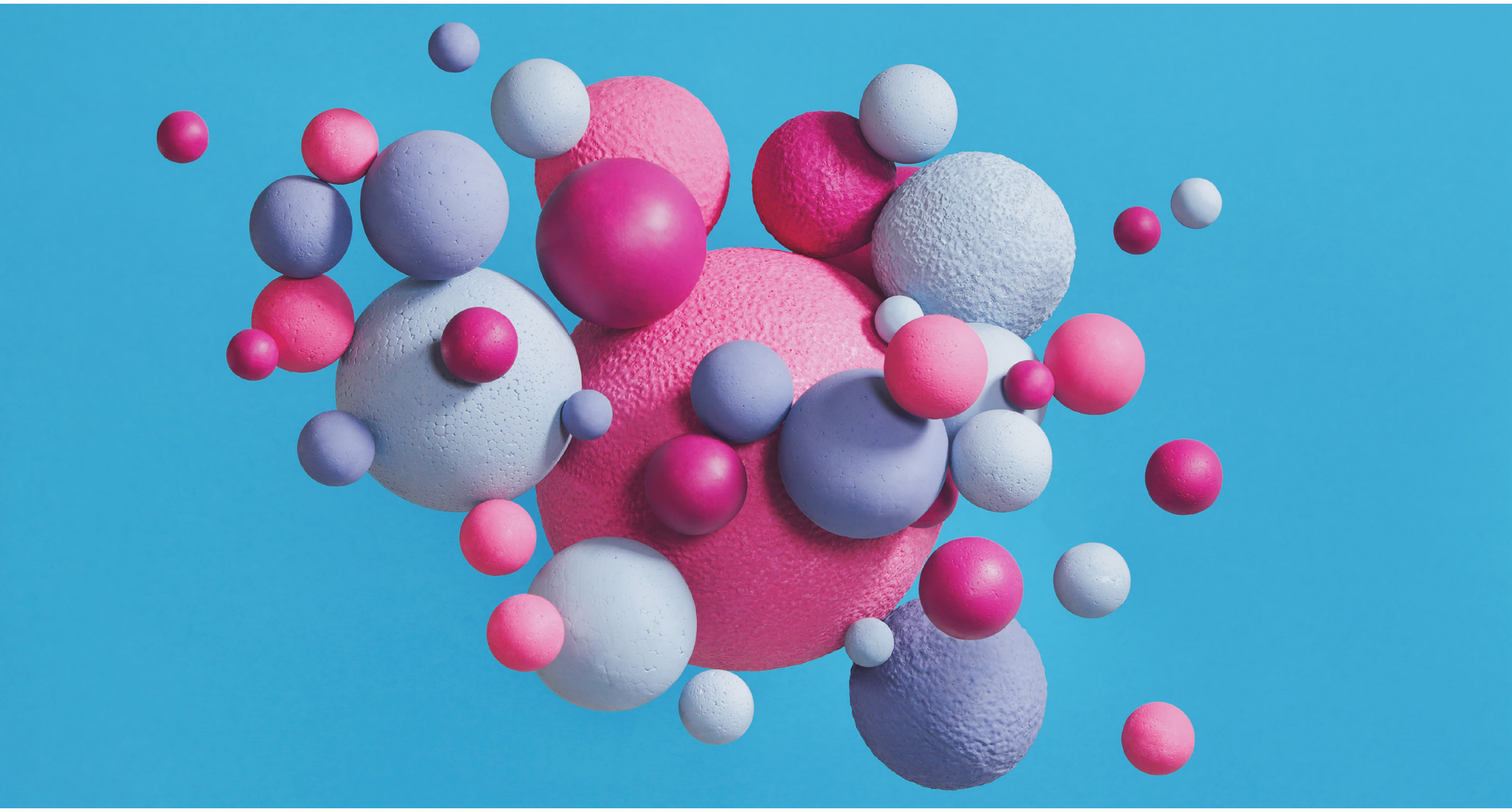
Insurance productivity 2030: Reimagining the insurer for the future

The pandemic has created significant challenges for insurers and sped their digital shift. To stay competitive, carriers will need to radically transform their operating models and cost structures.

by Alexander Erk, Pradip Patiath, Jonathan Pedde, and Jasper van Ouwerkerk



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The COVID-19 pandemic has upended many sectors of the economy. Insurance carriers in particular have faced serious operational disruptions and increasing pressures on profits.[1]

However, even in the years before the pandemic, only a small subset of insurers were earning substantial profits, offset by another small subset of insurers that had destroyed substantial economic value.[2] This is in part because, unlike many other industries, the insurance industry has not succeeded in improving productivity over the past decade.[3] Combined with persistently low interest rates, the result is many insurers not earning their cost of capital.

While the coronavirus crisis has magnified some of the major challenges facing the insurance industry, it has also accelerated the push toward greater productivity—and, in particular, the shift to digital. Over the next decade, insurance carriers have an opportunity to improve productivity and reduce operational expenses by up to 40 percent while simultaneouslyimprovingtheircustomers'experience. To achieve this success, the insurance operating model of 2030 will have to look very different than it does today.

Indeed, insurance carriers will need to look less like the traditional insurers of the past and more like modern tech companies. Successfully making this transition will require radical improvements in productivity across all areas of the value chain—which means insurers need more than mere piecemeal attempts at improvement. Rather, they need comprehensive, structural approaches to transform their operating models and cost structures. Only a transformative approach will allow an insurer to survive and thrive in a post-coronavirus world.

Insurers need more than mere piecemeal attempts at improvements. Only a transformative approach will allow an insurer to survive and thrive in a post-coronavirus world.

[1] For more, see Anshuman Acharya, David Hamilton, Pradip Patiath, Zachary Surak, Grier Tumas Dienstag, and Jasper van Ouwerkerk, “Insurance resilience in a rapidly changing coronavirus world,” April 29, 2020, McKinsey.com.
[2] For more, see Alex D’Amico, Mei Dong, Kurt Strovink, and Zane Williams, “How to win in insurance: Climbing the power curve,” June 18, 2019, McKinsey.com.
[3] For more, see Bernhard Kotanko, Björn Münstermann, Pradip Patiath, Jasper van Ouwerkerk, and Ulrike Vogelgesang, “The productivity imperative in insurance,” August 14, 2019, McKinsey.com.

A vision for 2030

While the main value-chain elements in insurance will remain, nearly all key operational processes in 2030 will be far more streamlined, enabled by automation and digitization, with much greater degrees of straight-through processing, especially in standard personal and small commercial lines of business.

Investments in new technologies will create or enable many of these productivity improvements. Until even a few short months ago, elements of this vision for 2030 might have seemed fanciful or far-fetched. However, the coronavirus pandemic has accelerated adoption of new technologies and new ways of working throughout the insurance industry, often due to simple necessity. Even for those insurers that have reduced investment in new technologies during the pandemic, cutbacks will not persist indefinitely. Indeed, across many or all elements of the value chain, we've seen increased digital adoption and rapid shifts toward remote working.

As a result of productivity improvements, insurance carriers' operating models in 2030 will be far less labor intensive than they are today. Thus, across every element of the insurance value chain—including product, distribution, pricing and underwriting, policy issuance and service, claims, IT, and other support functions—the insurer of 2030 will likely look very different from the insurer of today.

Product

The product landscape will likely look different in 2030 for two main reasons: simplification of products and simplification of the product portfolio.

Simplification of products. In 2030, insurance carriers will offer simpler products, both to improve customer satisfaction and to increase productivity. Simpler products may offer price lists with only three premium levels (bronze, silver, and gold, for example)—or perhaps just a smaller-than-usual set of add-on modules. Curtailing the standard plethora of options will reduce customers' confusion. Some leading insurers will invest in technology and develop one common IT platform for the entire business. They may even create one master product on that IT platform, which every subsidiary or business unit uses as the basis for its product-building process. This approach will generate significant efficiencies for large insurers, as their products (especially in P&C) often have many commonalities across countries and regions.

Simplification of the product portfolio. Many of today's direct insurers and digital attackers have simpler product portfolios, a fact that contributes to their significantly increased operational efficiency and lower cost structures than incumbents'.[4] By 2030, the most productive insurers will follow this lead and provide no more than five to ten products. This range is in stark comparison with, for example, the 50 to 100 products that many P&C insurers offer now—many of which generate neither meaningful revenues nor profitability. Our analysis shows that often the top ten to 15 in-force products generate more than 95 percent of total gross premiums written. The insurers that succeed over the next decade will be those that simplify product offerings accordingly. Simplifying a product portfolio could reduce an incumbent's operational expenses in product development–related processes by up to 30 percent.

Distribution

The pandemic has accelerated the trend toward more efficient omnichannel distribution, as more customers demand not only digital self-services

[4] Ulrike Deetjen, Simon Kaesler, Björn Münstermann, Sanaya Nagpal, and Ulrike Vogelgesang, "The next frontier for sustainable growth: Capturing the cost advantage of direct insurance," July 8, 2020, McKinsey.com.

but also in-person advice. Ten years from now, leading insurance carriers will have mastered their omnichannel approach. A customer might start with online research and switch seamlessly to receiving personalized advice from an agent through a videoconference. Innovative online portals will be available to customers who need to manage their policies after they've made purchases.

Sales forces will also be digitally enabled to a greater degree, allowing for more effective lead generation, better agent matching, and improved guidance on next best products to recommend.

Pricing and underwriting

By 2030, significant technology investments will have paid off, and manual pricing and underwriting will cease to exist for most personal and small commercial products across life and P&C insurance.[5] Insurers that invested in new tools will automate their pricing in simpler businesses—such as auto, personal liability, and home insurance—by more than 90 percent. In the coming years, insurers will acquire significantly better pricing capabilities through machine-learning models and analytics that use customer data (such as wearables for health products) to offer tailored prices or that use external data (such as competitor quotes from price-comparison websites) to optimize premiums.

Underwriting will not be fully automated by 2030 for large commercial lines, tailored specialty lines (such as art insurance), and more complex life lines; specialized underwriters' significant knowledge will still be required. Nonetheless, even for complex business, pricing and underwriting will be far more automated and digitally enabled in 2030 than they are today. Even in large commercial lines today, anywhere from 30 to 40 percent of an underwriter's time is spent on administrative tasks, such as rekeying data or manually executing analyses, suggesting at least some opportunity for digitization and automation.[6]

Policy issuance and service

By 2030, an automated pricing and underwriting process will immediately trigger the policy-issuance process without any manual interventions, and the policy-issuance process will be mainly or entirely digital. Customers will receive their policy documents through online portals, via email, or through other digital communications channels. The widespread adoption of safer, more secure digital communications channels will reduce the need for paper mail compared with today's world, in which regulatory requirements often limit the use of emails during policy issuance. In 2030, paper forms will be available only upon request, and some insurers may charge an extra fee.

In ten years, a significant share of policy handling will be through digital self-service. Within customer service centers, simple calls will be automated. Fast-learning chatbots will be able to help customers with all basic tasks and will only recommend to call (human) experts in exceptional cases. Most or all routine tasks will be fully automated, speeding the resolution of back-office tasks for the customer and eliminating boring, routine, manual work for employees. It also means that employees will be left with only more complex tasks, which will require the contact-center and servicing workforces to acquire new skills. As insurers upskill their people, policy servicing may become an analytics-powered growth engine, revealing opportunities to cross sell and upsell as well as boost retention rates.

Claims

In 2030, leading claims organizations will combine and harness the best features of human and artificial intelligence.[7] Humans will continue to be essential to the claims process, particularly for complicated or unusual claims, such as those in commercial

[5] For more, see Ramnath Balasubramanian, Ari Libarikian, and Doug McElhaney, "Insurance 2030: The impact of AI on the future of insurance," April 30, 2018, McKinsey.com.
[6] For more, see Ari Chester, Susanne Ebert, Steven Kauderer, and Christie McNeill, "From art to science: The future of underwriting in commercial P&C insurance," February 12, 2019, McKinsey.com.
[7] For more, see Deniz Cultu, Elixabete Larrea, Michael Müssig, and Swapnil Prabha, "Claims 2030: Dream or reality?," April 2, 2019, McKinsey.com.

or specialty lines. Human claims handlers will also provide empathy to customers in simple claims as well as expand to innovative new roles such as those in claims prevention (including monitoring, prevention, and mitigation). But thanks to digital tools (such as video-enabled claims adjustments) and AI (for fraud detection, for example), claims handlers will be able to work more remotely, productively, and effectively, while always keeping customer satisfaction in mind.[8]

These tools and next-generation capabilities will include advanced analytics that, at first notice of loss, segment and route each claim quickly to the appropriate claim handler and resolution channel. Digitally enabled claims handlers will need to work alongside the algorithms, helping customers on their journeys and handling exceptions. Indeed, while advances in technology—mostly involving AI—will automate nearly half the work done by claims workers, the role of the claims handler will not be eliminated but will continually evolve.

All told, digital advances in claims over the next decade will boost not only productivity but also enhance the customer experience. These advances may also improve loss frequency and severity by increasing claim accuracy.

Information technology

Even today, across many sectors, the industry leaders are those that operate and innovate like tech companies.[9] The most productive insurance IT organizations of 2030 will be those that embrace an ecosystem approach to capabilities. This approach is not just about using data and digital tools; it's also about organizing IT in such a way that it can enable and even catalyze continuous innovation and adaptation by balancing in-house and outsourced capabilities.

Indeed, even in 2030, many insurers will still face challenges in attracting and retaining sufficient analytics or data-science talent internally.[10] As a result, insurers will need to think about the right network of potential partners and plan how to source the knowledge they buy externally. We're already seeing this approach in industry leaders as well as in start-ups. This modular, platform-based IT setup gives insurers the speed and flexibility they need to experiment, fail, learn, and scale quickly.

While IT productivity will be higher in 2030, total IT costs may also be higher due to the increased need for advanced technologies. Over the next decade, current IT initiatives (such as replacing legacy systems and improving digitization) will have a positive impact on productivity. However, in 2030, many insurers will still be making significant IT investments.[11]

Other support functions

The support functions of 2030 will be far more efficient and effective than today's. Across many functions—particularly in HR and finance—insurers will automate routine tasks, thereby speeding the resolution of back-office tasks.

Human resources and talent. In 2030, insurance HR and talent functions will be more focused on strategic topics. Basic administrative and transactional processes will be streamlined and even outsourced where appropriate to gain quick access to automation and more integrated servicing, such as in payroll preparation and employee surveys. HR will also employ digital tools—such as rigorous talent analytics and videoconferences for job interviews—to be more efficient and effective.

Finance. By 2030, finance and controlling tasks will be much more centralized and automated. The controlling functions of all business departments (such as finance, distribution, and HR) will be integrated into one entity that enables centralized reporting. Insurance companies that employ new

[8] Insurers will increasingly be in the business of building and maintaining AI ecosystems. For more, see Ramnath Balasubramanian, Ari Libarikian, and Doug McElhaney, "Insurance 2030: The impact of AI on the future of insurance," April 30, 2018, McKinsey.com.
[9] For more, see Oliver Bossert and Driek Desmet, "The platform play: How to operate like a tech company," February 28, 2019, McKinsey.com.
[10] For more on talent, see Tanguy Catlin, Ari Chester, Julie Goran, Megan McConnell, and Scott Rutherford, "Transforming the talent model in the insurance industry," July 6, 2020, McKinsey.com.
[11] From 2012–17, for the average P&C insurance carrier, IT's share of operating cost increased to 24 percent from 17 percent. For the average life insurance carrier, IT's share of operating cost rose to 29 percent from 26 percent. These increasing IT costs over time have been mainly due to investments in digitization and replacing legacy systems. For more, see Tonia Freysoldt, Sylvain Johansson, Christine Korwin-Szymanowska, Björn Münstermann, and Ulrike Vogelgesang, "Evolving insurance cost structures," April 11, 2018, McKinsey.com.

technologies will be able to build one common dashboard and one "data lake," including all relevant steering KPIs as one single "source of truth." These reports will be automated and will be offered in a self-service portal where the respective departments can generate tailored reports.

Two actions to stay ahead of the curve

To prepare for the future in this uncertain environment, legacy insurance carriers would be wise to address their cost base now. Two critical actions can help them stay competitive over the next decade.

Create goals and a plan to achieve full potential

Insurers should start with an independent, outside-in examination of their business to identify its full potential. They should then create a future-state vision of the company.

Once the vision is established, insurers should develop a comprehensive and detailed plan that specifies clear, measurable goals with explicit lines of accountability. For instance, many insurers have set straightforward financial targets supplemented with other customer-experience and operational targets. They might track straight-through processing rates and all-digital policy application and issuance rates in underwriting and new business with a single individual accountable for each specific number. Without both clear goals and accountability, insurers risk ending up with poor results, followed by disagreeing and assigning blame.

To be successful, the plan needs to encompass a comprehensive set of levers across four categories: functional excellence, structural simplification, business transformation, and enterprise agility.[12] For many insurers, the plan will also require major technology investments.

In particular, the plan needs to address all sources of revenue and expense across all areas of the business. In our experience, nothing can be off-limits, and isolated cost-cutting doesn't work. For example, at one European insurance carrier, the board member responsible for sales strongly believed that sales-support needs varied widely across geographies. The carrier therefore had an extremely decentralized sales-support function spread across geographic regions in order to stay in closer relations with agents and customers. For years, leaders simply assumed that centralizing the function wasn't feasible. However, when this insurer undertook a productivity transformation, that same board member looked closely and found clear evidence that centralization could eliminate substantial inefficiencies while maintaining agent and customer satisfaction. As a result, this insurer's senior leadership agreed to centralize sales support, which created significant value. This centralization has become particularly valuable during the coronavirus pandemic, as newly adopted digital advisory tools increasingly provide best-in-class remote support for agents.

Set up the organizational infrastructure

To implement this plan, insurers should create a transformation office that continually and logically sequences levers so that every part of the organization knows what to do and when to do it in a harmonized way. The transformation office tracks progress without losing the big picture. It also holds people accountable for their actions and for delivering results, all the way to last mile of execution. This helps prevent insurers from getting stuck in "pilot purgatory," where they capture only a small fraction of potential value.

Moreover, insurers also need to prioritize organizational health.[13] This includes measuring their starting point and taking proactive steps along the entire transformational journey to shore up weaker areas. In particular, insurance carriers need to continually build employees' capabilities, all the way to the front line. For example, at the beginning of its transformation journey, one North American life insurance company conducted a comprehensive organizational-health survey. The survey revealed a lack of clear direction and ineffective execution as

[12] For more on the four categories of levers to boost productivity, see Bernhard Kotanko, Björn Münstermann, Pradip Patiath, Jasper van Ouwerkerk, and Ulrike Vogelgesang, "The productivity imperative in insurance," August 14, 2019, McKinsey.com.
[13] For more on organizational health, see Aaron De Smet, Bill Schaninger, and Matthew Smith, "The hidden value of organizational health—and how to capture it," *McKinsey Quarterly*, April 1, 2014, McKinsey.com.

two barriers to stronger performance. During the transformation journey, the leadership prioritized transparency with employees and clearly linked the transformation goals to the organization's overall mission—all in addition to creating a solid organizational infrastructure to support the company's performance transformation. Not only did the organization exceed its financial targets, in less than two years it also improved its overall organizational health score from below-median to top-quartile.

Finally, insurers need to communicate and effectively, starting with a united front at the top. Employees are happier and more apt to change their behavior when leadership communicates a clear view of where the company is going. The CEO and other board members need to recognize and communicate that the transformation is a journey and the reasons the transformation is necessary in this new and volatile environment. For example, the CEO of another European insurer rallied employees around the idea of a company-wide transformation under the banner of completely rethinking the way that they serve their customers. Successfully shifting their employees' mindsets toward new ways of serving customers was one crucial factor in enabling this insurer to rapidly adapt to fast-evolving technology and ever-changing customer expectations, all while positioning the insurer to successfully compete with insurtech disruptors.

The insurers that are successful in taking these two actions will see a steady downward trend in their expense ratio—not a single, large, one-time reduction. Indeed, those that succeed over the next decade will leapfrog the competition with more efficient and resilient organizations. Insurance leaders need to plan ahead, engage the gamut of strategic and tactical levers, and use radical transparency to advance change. Standing still is not an option in these uncertain times.

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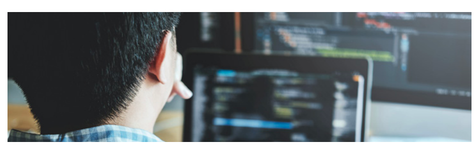

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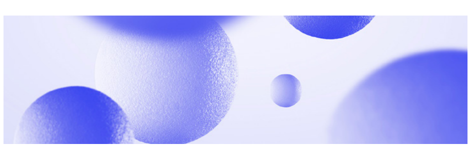

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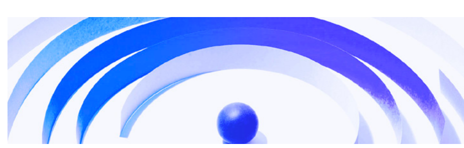

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