

Carrier Management

Critical Information for P/C Carrier Executives

Navigating the Fourth Industrial Revolution With Insurance-Managed Services

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Through the ages, industrial revolutions have been the harbingers of great change not just for one industry but very often for the entire civilized world.

When you consider Samuel Slater's invention of the first water-powered cotton spinning mill in North America in 1793, Nikola Tesla's development of an alternating current (AC) system for transmitting electricity over long distances in 1887 or the introduction of the first microprocessor by Intel scientists in 1971, it bears noting that sometimes great change starts slowly and without much fanfare.

Did the innovators realize what impact their inventions would have in the long term?

Probably not. But even if those events and many more have since been recognized as groundbreaking, no one could have predicted the intricate domino effects. Each innovation was a vital contribution to the first, second and third industrial revolutions, which shook the foundations of society, reshaping how people lived and the way work was done.

Today, we are in the nascent stages of a fourth industrial revolution (4IR), also referred to as the "next" industrial revolution. Already underway, 4IR blurs cyber, physical and biological environments to create autonomous systems and networks with vast implications. 4IR is introducing a world where machines talk to machines (M2M) to continuously refine operations without human input. It's possible that future generations will point to virtual personal assistants such as Siri or Alexa, self-driving cars, virtual reality gaming and voice recognition software as among the early developments of the fourth industrial revolution.

It's almost impossible to envision the full impact of 4IR over time. The multifaceted next industrial revolution will undoubtedly alter society's appreciation of what is possible in an age of data sciences and intelligent technology. From the perspective of the insurance ecosystem, understanding and addressing the phenomenon of 4IR is a prime challenge and an opportunity on several levels.

The Uphill Battle for Insurers

Consider the evolving 4IR environment from the perspective of data and automation in insurance. Many insurance organizations are grappling with:

- How to exploit the tsunami of data available in the industry.
- How best to re-engineer operations and processes.
- How to apply data sciences and analytics to improve efficiency and productivity.
- How to close the knowledge gap and leverage robotic process automation (RPA) and intelligence augmented solutions (IA).
- How to rationalize and accelerate integration with the Internet of Things (IoT).

Executive Summary

Xceedance's Amit Ranjan highlights what he believes to be the benefits of choosing industry-dedicated service providers for insurance-managed services in an evolving 4IR environment. Rather than seeking expedient suppliers of tactical situations for short-term talent capacity boosts, insurers should engage consultative service partners for business and operational expertise.

As these and many more groundbreaking elements unfold, insurers are on a whirlwind learning curve. In some cases, managed services partners are engaged to bridge the gap between the promises of technology and the capacity of the insurer's business operations and IT capabilities. While managed services have supported insurance organization strategy in the past, the fast and transformative pace of 4IR is driving a shift in how insurers utilize and integrate such service providers.

Looking for Solutions

According to a [2016 Novarica Market Navigator](#) report on IT service providers for insurers, all large insurance companies rely on some level of external resources to fill IT talent needs in support of business operations and [fewer than 10 percent of all insurers now conduct IT work exclusively in-house](#). But more and more, the report found, insurers are [shifting to a blended model](#), using a combination of internal and external resources.

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This shift is having a noticeable impact on the relationship between insurers and service providers, how those relationships are managed, and even the types of providers insurers prefer to engage. So, as the next industrial revolution gains momentum, what should insurers look for in managed services providers?

First, insurers need to rely on trustworthy partners. Many insurers now view insurance-focused external resources as strategic, well-connected extensions of internal teams. In this way, the provider becomes a valuable consultant to the company's larger ecosystem, instead of simply filling in as a relatively cheaper resource for processing work. In seeking service providers to meet 4IR challenges and opportunities, insurers should essentially try to replicate the same caliber of expert talent that would be hired internally, not generalist consultants in technology and platforms.

Second, to re-engineer and refine strategic priorities in the warp speed of 4IR, insurers should look to consultative service partners for not only supplemental talent but also for business and operational expertise, including a deep understanding of underwriting and actuarial workflows, policy service, claims management and financial operations. Managed services providers with deep industry knowledge can help identify operational strengths and weaknesses and accelerate business optimization methodologies for projects already responding to the exponential pace and cadence of 4IR.

Service partners, in turn, must understand exactly how core systems support business priorities and how new, 4IR-driven data and technology strategies can mesh with all types of legacy systems in the front and back offices. Partners with regional expertise are especially valuable as insurers proactively attempt to manage local market and regulatory distinctions, in which even minor nuances can have a significant impact on competitive differentiation and performance.

Third, to face the challenges of the data-driven digital economy, insurers also need partners who are insurance data scientists. Increasingly in the age of 4IR, the techniques to derive business impact from data require the application of machine learning, robotic process automation and intelligence augmented solutions. This skillset embodies a refined understanding of the magnitude and implications of vast and growing structured and unstructured datasets. It also requires the foresight to apply predictive and prescriptive data models for the improvement of operations, risk selection and customer experience.

Fourth, a comprehensive plan is needed for managing both the day-to-day activity and the long-term relationship with service providers. Up until recently, many initiatives were conceived and designed to solve specific needs. But data ubiquity, IoT considerations and digital customer demands are radically changing the business and transactional landscape of insurance. In blending internal and external resources, the relationship of insurers with service providers needs to focus well beyond specific, one-off projects. Strong communications methodologies, including the definition of all expectations and the documentation of multichannel internal and external feedback to the business, are critical to ensuring the service provider can meet the goals of insurers. Likewise, insurers benefit from being able to deliberate the strategic direction and tactical initiatives unique to specific business situations with knowledgeable managed service providers. In doing so, insurers can expect actionable, well-defined operational support for both short- and long-term growth.

Finally, no consultative relationship would be complete without an understanding of the cost-benefit implications. In a blended, managed services approach, the external support model is no longer just a short-term capacity boost. It should be analyzed as a strategic partnership investment, offering ongoing, targeted expertise over time, along with measurable savings based on business and technology improvements that drive measurable transformation.

Indeed, the relationship between insurers and managed services partners can also be seen as a vital cog in InsurTech initiatives—where experimental projects in digitization and the use of intelligent technologies can be incubated and accelerated to fruition with flexibility and agility.

Insurance Implications

To survive and thrive amid the mounting clamor of the fourth industrial revolution, insurers will be best served by managed services partners that offer deep industry knowledge; have the same quality of talent insurers employ and would hire internally; and are able to deliver lasting, multidimensional business strategy support and cost ratio improvements. As the Novarica report infers, in the rapidly evolving insurance landscape, the industry-dedicated services provider can make a significant difference, especially when deployed as a long-term consultative partner across the enterprise and not just as an expedient supplier in tactical situations.

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