

Part 4 - Members of the leadership team explore trends in the insurance industry and provide their views on the future of the market.



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Sachin Kulkarni leads the end-to-end execution of consulting engagements with Xceedance clients. He focuses on technology, process optimization and digital transformation.

Q Some say we are in the midst of a new industrial revolution. What does this mean for insurers?

Justin: We are witnessing the next industrial revolution unfold now and it will bring changes we can barely conceive today. Sometimes called Industry 4.0, it presents a set of fundamental challenges for insurance organizations — namely making sense of the tsunami of data coming our way; reengineering and refining operational processes to improve efficiency and productivity, bridging the knowledge gap of cognitive technologies such as RPA [robotic process automation], IA [intelligence augmented solutions], and AI [artificial intelligence]; and, finally, rationalizing and accelerating the integration of IoT [Internet of Things] to optimize risk assessment and policyholder services. Many insurers

recognize they can't navigate the new world alone. They're going to need partners who can help them to improve business processes and technologies. Xceedance continuously strives to be at the forefront of knowledge and expertise to address the challenges and opportunities of the currently evolving industrial revolution that's largely driven by data and intelligent technology.

George: I think Justin is exactly right. The evolving technology environment can be characterized as the blurring of cyber, physical and biological networks to create autonomous systems. Essentially, we're moving in a direction where machines talk to machines [M2M] to continuously refine their operations which are guided by human input. There's a host of examples of this already playing out in our day-to-day lives – autonomous vehicles and smart thermostats, just to name a few.

The list goes on and is growing by the day. And, as with earlier industrial revolutions, these changes are bound to alter the way we live, work, and interact with one another. For instance, 10 years ago, would anyone really have predicted we would be able to ask about everything — say directions to the nearest convenience store or the weather forecast across the globe — from a digital personal assistant named Siri or Alexa? Such innovation and unpredictability can create tremendous opportunities but also challenges, especially for the insurance industry, which is focused on managing society's risk.

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– George Freimarck

Q The insurance industry is sometimes considered to be an innovation laggard. Is that changing?

Sachin: For decades, the intricate business of insurance has trudged along routinely, with irregular spikes of innovation and change being sufficient to keep up with the times. Legacy systems have typically served the industry well and helped create large, profitable companies. But our increasingly digital economy is exposing the sub-par performance of those very systems. As customer expectations change and policyholders become accustomed to instant access to information and products, the traditional "analog" domain of insurance isn't acceptable or productive. Society is definitively within the age of digital commerce and it's fast reshaping the insurance landscape, just as it has in many other industries.

Rajesh: Digital enablement and market expectations are forcing insurers to quickly adapt — whether or not they are ready. To help make this transition smoother, they are increasingly seeking out the support and expertise of informed managed services providers. And Xceedance is one of those providers that is exclusively focused on the insurance industry. What our company offers is the ability to combine the traditionally separate functions of operations and IT services into comprehensive end-to-end solutions. Xceedance team members bring it all: AI and IT skills, comprehensive knowledge of industry and technological trends, and strong understandings of global, regional, and local market and regulatory environments. This means that, while the industry as a whole may be an innovation laggard, individual insurers can ease themselves into new technologies and new ways of doing business by leveraging the skillsets and the capabilities of seasoned experts such as Xceedance.

Q Given the growing role of technological innovation in the insurance industry, do you notice ongoing resistance to change among insurers?

Justin: It's an interesting question. In any industry, there are bound to be groups that want to maintain traditional conventions and are skeptical about change. This is especially true in the insurance domain. Today, many insurers are taking cautious steps towards introducing emerging technologies. Everything from telematics, RPA, augmented reality, machine learning, to blockchain, IoT and drones [collectively referred to as TRAMBID] are being explored for business value. And while there are signs of measurable impact and productivity, other factors, including pressurized budgets, data strategy, maintenance constraints, integration with existing systems, and good old-fashioned risk aversion often conspire to hold back individual companies and the industry at large.

A good example of this inclination is blockchain, or DLT [distributed ledger technology]. It's the latest "next big thing," facing an uphill battle of credibility and acceptability in the market. Predictably, the insurance industry is holding DLT at arm's length. Even investigation into, or evaluation of, the technology is limited right now. Likely stemming from its relationship to Bitcoin as cryptocurrency, part of the problem is that many view blockchain as purely financial or "fintech" in nature. For blockchain to be useful, insurers need to look beyond the financial filter. Ultimately, the insurers must decide if fear of failure and of being left behind is enough to push them out of their comfort zones and help them embrace change. Is there risk? Absolutely. But DLT can be tested and explored in thoughtful and responsible ways to wisely mitigate that risk.

Sachin: I agree. It's no surprise, insurers are rarely early adopters. But the fast follower position is comfortable and practical for much of the industry. As use cases for emerging technologies become mainstream, insurers tend to pay more attention. Familiar companies and individuals reaping benefits tend to encourage actionable curiosity. Many outside the industry might call it lack of imagination. But from the inside, concrete examples of how any new technology can be successfully applied or utilized to solve business problems is simply the insurance industry's way of managing risk. And that creates a conundrum for blockchain or DLT. As an object lesson for how DLT can be internalized and implemented, the insurance industry can look at the measured way in which cloud computing was evaluated, rejected, and then slowly adopted over the past few years.

Q What are some of the key emerging issues that will impact commercial insurance companies?

Rajesh: What comes to mind is how emerging exposures as well as evolving technologies continue to drive product strategy. Specifically, amid the constant need to reduce expenses, it's really important to think about how insurers can transition to developing differentiated product and service solutions for their prospective customers. Over the next several years, we should expect to see, among other things, developments in how risks are measured and monitored (for example, IoT and edge computing), how risks are selected and priced (for example, machine learning and artificial intelligence), and how customers are served (for example, chatbots and blockchain smart contracts).

Sachin: Another challenge is trying to find an effective cost ratio while ensuring talent can be retained. But in considering their options, would insurers gain the most value if they invested in RPA before or after their operations teams are reasonably efficient? Also, we are seeing smart and connected devices that generate large volumes of rich data. As a result, insurers need to consider how IoT can relate to, and perhaps productively drive, some of their product strategy.

Q How can insurers get ahead in the age of InsurTech?

Justin: Plain and simple – a willingness to explore and embrace today's changing environment is key. As my colleagues have emphasized, insurers today are under a frontal assault to evolve and change. There's a lot they need to consider in this process. First, successful competitive differentiation is no longer based solely on price. It's also about implementing emerging technologies, building a culture of innovation and improving processes, workflows and results. Second, insurers need to be agile in terms of embracing modified business models, hybrid operating stances and fast revisions to standard processes. Startup InsurTech market entrants that use hybrid business models from the outset often have a leg up by enjoying levels of flexibility that traditional or incumbent insurers may not be able to replicate. To be somewhat self-promotional here, working with well-informed managed services providers can help to bridge such gaps and achieve more parity.

Rajesh: I think Justin makes some good points, especially in terms of insurers needing to be agile. There's real and building competitive pressures from the startup InsurTech entrants, but we are also seeing many established insurance organizations embracing change with positive results. Specifically, some insurers are setting up greenfield subsidiaries with the mission to leverage InsurTech's agility for paths to become more market-responsive and competitive. Instead of modifying legacy technology and existing product portfolios, the greenfield approach attempts to incorporate policyholder preferences for digital enablement, including on-demand service and choices in transactional relationships such as billing and payment methods.

"For all the power of today's technology, the insurance world cannot exist or thrive without the knowledge and judgement of experienced professionals." – Rajesh Iyer

Q How are changing policyholder expectations impacting the insurance industry?

George: Increasingly, insureds are demanding greater accessibility and increased self-service options. Whereas other industries have worked quickly and intentionally to place the customer at the center of all business processes, the insurance industry has often viewed the customer largely as an attribute of the policy. Many insurers today are choosing to implement direct-to-consumer capabilities, such as portals, as a kind of quick fix in lieu of replacing or upgrading existing legacy systems. However, such initiatives can be problematic, for example depending on an insurer's distribution mix

of captive and independent agents, call center capabilities, and additional supporting infrastructure. At the same time, we are seeing other companies take a proactive approach by developing virtual agents and chatbots to provide more immediate and informed policyholder support at the point of sale or service.

Rajesh: The rise of new technology and the growing reliability and efficiency of digital solutions means consumers are increasingly demanding round-the-clock service, flexible products and billing options, and better accessibility to information and service, all without any increase in costs. In short, policyholders are much more directly involved in, and connected to, the insurance lifecycle. I think the easiest way of understanding it is that RPA acts as an effective "virtual resource" by performing repetitive, rule-driven tasks, driven by software and through existing applications. Digital robots act on business rules that are fed to them. Robots can work unattended for back office types of operations, without requiring human input. Alternatively, they can work in a mode that would require human intervention and prompting at designated intervals. This typically occurs in front office operations or in interactional and transactional situations. Also, users don't need to have highly sophisticated programming expertise in order to successfully master and implement the model.

Q What are some of the specific benefits of RPA technology for the insurance market?

Sachin: There is growing interest in RPA for a variety of reasons. First, it frees up resources for more valuable and strategic tasks. Second, it increases throughput and reduces turnaround time. And third, it helps to improve overall accuracy across many manually-driven functions of the insurance lifecycle. I think the easiest way of understanding it is that RPA acts as an effective "virtual resource" by performing repetitive, rule-driven tasks, directed by software and through existing applications. Digital robots act on business rules that are fed to them. Robots can work unattended for back office types of operations without requiring human input. Alternatively, they can work in a mode that would require human intervention and prompting at designated intervals. This typically occurs in front office operations or in interactional and transactional situations. Also, users don't need to have highly sophisticated programming expertise in order to successfully master and implement the technology. This is especially important for insurers who, as we have already addressed, may be stretched to meet the demands of rapidly changing technological developments.

Justin: RPA can be particularly effective in property/casualty, healthcare, travel, and other insurance lines which handle large volumes of repetitive business data. Those business conditions require similar kinds of processing, based on established operational procedures. So, considering inefficiencies in the current methods of doing business, the ability to employ robots to systematically push this work out can be gamechanging. The London market is a great example. The standard operating model is one where 30-40% of employees are revenue generating while the remaining 60-70% provide support, often for menial and mundane tasks. So, with automated technology, this model can really be turned on its head and drastically improve efficiency and cost-effectiveness.

Q That's a great segue into another timely question: Will RPA and other technological innovations create an alternate workforce?

Rajesh: Good question. Today's machines have the power to dramatically improve productivity and accuracy in the insurance world. It's a virtual certainty that tomorrow's algorithms will be able to provide rating for complex commercial industrial risks in nanoseconds. When coupled with sophisticated algorithms, this will allow insurance carriers to provide near instantaneous quotes back to brokers. Likewise, with IoT, we now have access to an incredible amount of new data. So, insurers can price most individual risks with relative precision rather than broadly price across categories of risk. But are we on the verge of automated technology replacing humans? In my view, no, definitely not. For all the power of today's technology, the insurance world cannot exist or thrive without the knowledge and judgment of experienced professionals. In the best possible scenario, we will have people and machines working together in an environment where machines and new software perform manual tasks and provide seasoned experts with valuable decision-making tools.

George: As the insurance industry evolves people's mindsets need to change with it. Complacency with the status quo is dangerous. We've already seen many examples of jobs becoming obsolete because workers failed to remain relevant amid the sea of new innovation. Going back 25 years, the profession of typists is a really good example of this. In the last century, pools of typists played a crucial role in the day-to-day operations of companies, institutions and governments. Today, no one would ever consider paying for typing services. In the same way, professionals, especially newcomers to the insurance ecosystem, should seek out new skills such as programming. If they don't, they will find it harder to do their jobs. That's exactly why Xceedance invests heavily in the learning and development of our workforce, especially our young professionals. We strive to give them the training, resources, and guidance to constantly push the boundaries of insurance and technology acumen.

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Q Is there a specific function in the insurance ecosystem that is particularly affected by today's wave of technological advancements?

Sachin: Underwriting is certainly being affected. By and large, the insurance industry continues to price risk using assessment questions and techniques devised in the 1970s. For example, a client seeking auto insurance will be charged a certain amount of premium based on answers to questions such as age, accident record, and average miles driven. But having to ask each individual client those same questions is a tedious task. So, can this process be automated effectively? In that context, when a U.S. insurer conducted an in-depth analysis of its pricing methodology, 80% of cases varied by a margin of less than 5%. Clearly then, with more automated approaches and systems, the firm could devise ways to evaluate risk on the front end and process claims on the back end much faster and with much more precision. This, in turn, freed up significant time for seasoned underwriters to devote to more complex cases – in other words, the 20% of business that had a larger margin of error but also the potential for higher profitability and policyholder service benefits.

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George: I recently came across a study from the Center for Business and Economic Research (CBER) that placed underwriting fourth on the top 10 list of occupations that can be automated. There are other studies that support this estimation. And while underwriters, like all professionals, are certainly at risk of machines taking over some of their work, there are many aspects of the job that only the human instinct and intelligence can address with the right touch and accuracy. A machine can process routine claims faster than a human, for sure. But can a machine deal with special cases or evaluate risks for other potential liabilities such as cybersecurity? Not necessarily. Insurance is an industry driven by an understanding and appreciation of risk in conjunction with special conditions, contingencies, and expecting the unexpected. Human intelligence, experience, and common sense are vital to understanding the current and future intricacies of this market. And all forms of technology can assist insurance professionals in effectively serving the needs of a vast range of insureds and policyholders.

Learn more:

- [Part 1 - Xceedance Profile >](#)
- [Part 2 - Xceedance Capabilities >](#)
- [Part 3 - Managed Services for Insurance Operations >](#)