Commentary

The robots are coming to insurance, but only fools rush in

These are the steps insurers should take internally to set the stage for innovation success

By **John Begley** | May 18, 2018

There are numerous reasons why insurance organizations should still be carefully evaluating options, being diligent, and proceeding with pilots rather than enterprise-wide implementations. (Photo: Shutterstock)

There has been a huge upsurge in **artificial intelligence (AI)** and robotics news of late, and the last Consumer Electronics Show (CES) in Las Vegas has no doubt been a catalyst.

But, not all the news is reassuring for us humans.

AI and robotics are playing an increasing role in every aspect of the daily lives of individuals globally. While it is fantastic to see technologies that remove repetitive manual chores, improve personal safety, and transform the lives of people with physical disabilities, it is much more sobering to hear of robots outperforming highly-trained surgeons in complex medical procedures.

Is this now a world of declining human self-worth?

Recent experiences with driverless cars and Cloi, LG's uncooperative robot, are potent reminders that while there are obvious benefits to **the use of these technologies, new risks and threats still lie ahead**.

The false first-mover advantage

Futurologists statistically turn out to be right most of the time, but these individuals are typically way too optimistic on timelines. Case in point: those original hand-held communicators introduced on "Star Trek" in the 1960s, which many say foreshadowed the smartphone functionality so common today.

Insurance organizations are naturally more cautious than companies in other industries. That may have made it easier for the industry to recognize the big lie of the *first-mover advantage* coined during the dot-com boom.

Today, insurers are being forced to contrast the truth of the VHS vs. Betamax experience with an almost painful awareness that being first is nearly as dangerous as being last.

So, in this world of disruptive change, are there any foundations on which enterprise businesses can build?

For starters, it is time to accept that the era of 10-year deal is dead. The world is changing faster than even the most agile of organizations, and it is difficult to see how such long-term, legally-based, contractual commitments can be sustained. Quite often in present-day long-term deals, the early signs of strain are evident after just a couple of years, followed by half-hearted attempts at reconciliation and acrimonious separation once exit penalties have expired.

Shorter-term three-, or even two-year, deals can prove much more productive and innovative, particularly when the opportunity is taken to in-source knowledge and learning along the way. Bigger, in this case, is not necessarily better, and supplier risk assessments that focus on turnover and numbers of employees no longer fit the proverbial bill.

The ability to transfer the technology risk, walk away without penalty, and easily move on to the new (iPhone) gadget or (Uber) model helps create agility, as well as business benefits.

Traditional outsourcing elapsed

It may also be time to admit that offshore business process outsourcing (BPO) has never fully delivered on its business case benefits. True, labor arbitrage still exists, and transition methodologies have evolved to a point where operational risk is low.

However, no one has cracked the attrition challenge in which 25 to 40 percent turnover continually erodes domain knowledge, increases error rates, and brings with it a continuous cycle of recruitment, training, promotion, and replacement. Add to that double-digit wage inflation in some developing economies, and the days of headline-grabbing deals may well be over.

Considering the additional hidden onshore cost of contract management, supplier performance, and regulatory oversight, established BPO models now need the kiss of life.

Potential panaceas

Thus, **process automation**, robotics, and AI offer up potential panaceas that could tide everyone over until the new dawn arrives. But keep in mind, only fools rush in.

There are numerous reasons why organizations should still be carefully evaluating options, being diligent, and proceeding with pilots rather than **enterprise-wide implementations**. On that note, it is further important to recognize that digitization alone is not, and never will be, a viable strategy. It may be an enabler of a strategy, but without a clearly defined operating model that underpins a segmented client base, digitization may be no more than a lucky dip that will simply burn cash on the road to nowhere.

Equally, process automation, robotics, and AI will always make for compelling cost-saving business cases, but, in order to realize the true potential and benefits, these tools should be focused on winning clients and implementing accessible, 24/7 customer service. Cost savings will inevitably flow as a by-product, but, without vision and leadership, these tools will be underutilized and will never fulfil on the promise of true, game-changing potential.

Insurance innovation strategies

In increasingly competitive global markets, there are steps insurers should take internally to set the stage for success, and which could help avoid some of the more common pitfalls of incrementalism, including:

- Decide if the organization's culture and leadership is truly capable of committing to the journey of transformation, let alone arriving at the destination. If not, consider setting up a *newco* and subsuming *oldco* into that entity when the time is right.
- Before setting out on the journey, decide who is driving. Sorting out any IT politics between the CIO and COO will help ensure that turf wars don't torpedo solid business cases.
- New tools will demand new skills of managers who have built careers leading and inspiring people. Change management is essential at all levels.

- Make sure business cases are predicated on the benefits of growth, **client retention**, 24/7 customer service, and legal/regulatory compliance. Cost savings should be a given and need to be banked, but cannot be counted on to drive a strategic agenda focused on future survival and growth.
- Robots can't play leapfrog. If existing processes and IT systems are the product of incremental enhancements known only to a few key SMEs, chances are the initial automation phase will be a train wreck. Formal reviews of *as-is* processes are a pre-requisite to launching successful projects in this space.
- **Tools like robotics and AI are still in their infancy**, so don't bet the farm on any one technology and partner with relevant players willing to bear the obsolescence risk, thereby allowing organizations to select the needed skills without reverting to the 10-year contracts of old.
- Don't be too proud to seek help, especially from experts who can combine deep insurance domain knowledge with hands-on proficiency in emerging and intelligent automation. Cutting-edge technology often looks desirable and exciting, and the rewards can be enormous, but, so too can the cost of failure. It is quicker and much, much cheaper to learn from the experiences and mistakes of others.

One final point: Tradition and longevity have been hugely valued over the generations within the insurance industry. But the industry is ill-served by a pervasive view that having been around for 300 years, it will, of course, survive another 300 years.

From the inside, that view is reassuring. From the outside, it is plainly absurd.

John Begley is a member of the board of directors of ***Xceedance****, a company that provides managed services to insurers, reinsurers, brokers and MGAs/MGUs worldwide. To find out more, send email to* ***contact@xceedance.com****.*