
2030 will be more streamlined with greater levels of straight-through processing, particularly in small commercial business lines.

Insurance productivity 2030: reimagining the insurer of the future

Insurers will need to adopt radical and structured changes for the transformation, says McKinsey & Co.

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. 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. This is in part because, unlike many other industries, the insurance industry has not succeeded in improving productivity over the past decade. Combined with persistently low interest rates, the result is many insurers will not earn the cost of their capital.

Whilst the coronavirus crisis has magnified some of the major challenges facing the insurance industry, it has also accelerated the push toward greater productivity, 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% whilst simultaneously improving their customers' experience. To achieve this success, the insurance operating model of 2030 will have to look very different than it does today.

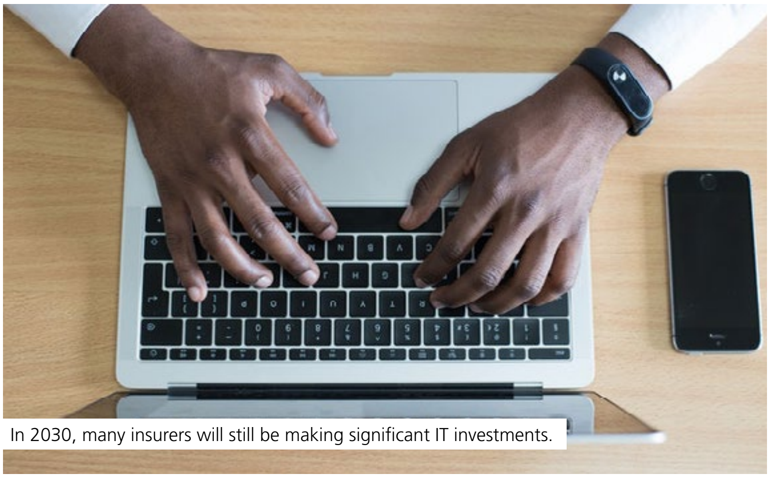
Indeed, insurance carriers will need to look less like the traditional insurers of the past and more like modern tech companies. Successfully making this transition will require radical improvements in productivity across all areas of the value chain—which means insurers need more than mere piecemeal 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.

As insurers upskill their people, policy servicing may become an analytics-powered growth engine

A vision for 2030

Whilst 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


In 2030, many insurers will still be making significant IT investments.

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, 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.

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 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 often have many commonalities across countries and regions.

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. By 2030, the most productive insurers will follow this lead and provide no more than five to 10 products. This range is in stark comparison with, for example, the 50 to 100 products that many P&C insurers offer now. Our analysis shows that often the top ten to 15 in-force products generate more than 95% 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%.

Distribution

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

Insurers will have significantly better pricing capabilities through machine-learning models and analytics that use customer data

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. Insurers that invested in new tools will automate their pricing in simpler businesses by more than 90%. In the coming years, insurers will acquire significantly better pricing capabilities through machine-learning models and analytics that use customer data to offer tailored prices or that use external data to optimize premiums.

Underwriting will not be fully automated by 2030 for large commercial lines, tailored specialty lines, 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 30-40% of an underwriter's time is spent on administrative tasks, such as rekeying data or manually executing analyses, suggesting at least some opportunity for digitisation and automation.

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

In 10 years, a lion's share of policy handling will be through digital self-service.

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. Humans will continue to be essential to the claims process, particularly for complicated or unusual claims, such as those in commercial 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. But thanks to digital tools and AI, claims handlers will be able to work more remotely, productively, and effectively.

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 algorithms, which would help customers on their journeys and handling exceptions.

Information technology

Even today, across many sectors, the industry leaders are those that operate and innovate like tech companies. 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. 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. 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 will have a positive impact on productivity. However, in 2030, many insurers will still be making significant IT investments.

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Other support functions

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 and controlling tasks will be much more centralized and automated. The controlling functions of all business departments will be integrated into one entity that enables centralized reporting. Insurance companies that employ new 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. *By Alexander Erk, Pradip Patiath, Jonathan Pedde, and Jasper van Ouwerkerk.*


COVID-19 has accelerated the trend toward efficient omnichannel distribution.