



USING AN INSURANCE BUSINESS-ORIENTED OPERATING MODEL TO DRIVE TRANSFORMATION

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Models are tools for improvement. We're all familiar with the idea of the "new model year" in the automotive industry. In durable goods, we appreciate the additional efficiencies and power that we receive as technologies improve and new models come to market. Whether it's a vacuum, a blender, a cell phone or a television – new models always bring us some level of excitement. They can help us do something that we couldn't do before.

Insurers need operating models that are always ready to take advantage of the next set of technology innovations. They need an operational model that modernizes itself. What if we created a technology and business model that could unify our capabilities and data, while preparing us to efficiently integrate our past, present and future? As it happens, this perpetual business-oriented operating model is more than a vision of things to come. It is proving to be a game-changer, giving some insurers a competitive edge and leaving others wondering if the timing is right to jump in.

The business-oriented operating model answers the issue of rapid change. Change is the only thing insurers can count on these days, whether it is disruption coming from the rising digital consumer, consolidation in the industry through mergers & acquisitions or incumbent insurers looking to develop new business models either on their own or through partnerships with innovative insurtechs. Ongoing change has shifted insurance carriers' operating model from little more than utilities to strategic enablers.

Technology plays a role in every business strategy, from core operations to insurtech capabilities. It is not only the provider of baseline business process efficiency and customer service, but also the source of competitive

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distinction. The pervasiveness of insurtechs within the insurance enterprise has accelerated the pace of business significantly, and with it, the need for executives to respond with greater agility to market threats and opportunities. Organizations that aren't prepared to consume cutting-edge technologies will be unable to capitalize on market shifts.

In this changed environment, operational habits that have worked well in the past may no longer assure success. Insurance executives can no longer take for granted that their business processes are adequate; they must take inventory of their entire suite of processes and the technology that enables it, identify what capabilities are needed to support the business strategy that is right for their company and use the resulting framework to drive business-oriented operating model change.

“Yes, we can do that.”

There is nothing more crushing to enterprising executives than realizing that what they want to do and need to do is hampered by operational models. If your business is focused on growth, you want to do what it takes to grow. In insurance, this means:

- **Rapid launch of new products and rapid expansion of distribution channels.**
- **Deeper customer engagement.**
- **Quick, strategic mergers and acquisitions that fill gaps and open doors to new markets.**
- **The ability to integrate and use insurtech capabilities with immediacy.**

Of course, getting to this point is easier said than done. No executive suddenly realizes that the company's processes are inadequate and that IT is poorly aligned to tactical and strategic objectives. Awareness begins with “pain points” in specific areas of business process, learning of competitors' new service offerings for distributors or customers, or concern about persistent inefficiency within operations. The wake up call is more like the snooze button. “How long can we hold out while our tech debt grows and our business operations drag?”

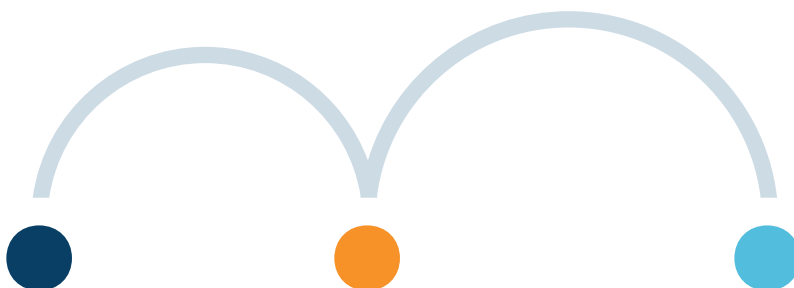
The issue becomes even more prominent as companies in today's environment seek the advantages of consolidation. Carriers are purchasing carriers. Carriers are purchasing insurtechs. If carriers haven't diligently considered an operational model shift, however, they aren't realizing consolidation's full value.

Forward-looking insurance executives may have a generalized awareness that digital service and

operational efficiency are undergoing rapid changes that dramatically effect a company's ability to capture opportunities while they are still opportunities. They are getting used to extended timeframes to make changes. They are yearning for a day when IT and Business can answer in unison, “Yes, we can do that right now.” However, they are typically at a loss for where to start in undertaking necessary efforts to modernize their processes and capabilities and strategically align the business with IT.

The business-oriented operating model provides the starting point for enabling innovation. It allows insurers to re-envision processes and technologies in light of growth-focused responsiveness. The operating model presents both a framework of functions, processes, constituencies and a framework for evaluating enabling technologies that every insurer needs to take into account in formulating and executing on business strategy. This framework is common to all insurance enterprises that serves as a tool for process inventory and serves as a context for decision-making tailored to the unique strategic imperatives of a given company.

In the absence of a holistic approach to business transformation, insurers tend to address efficiency and service deficiencies in a piecemeal manner that typically wastes resources and introduces complexity into their processes and technology environment. The business-oriented operating model gives business executives a template for coordinating their strategic investments in process and technology that will enable them to minimize waste, systematically modernize, and provide a basis for agile response to changing business conditions in the longer term.

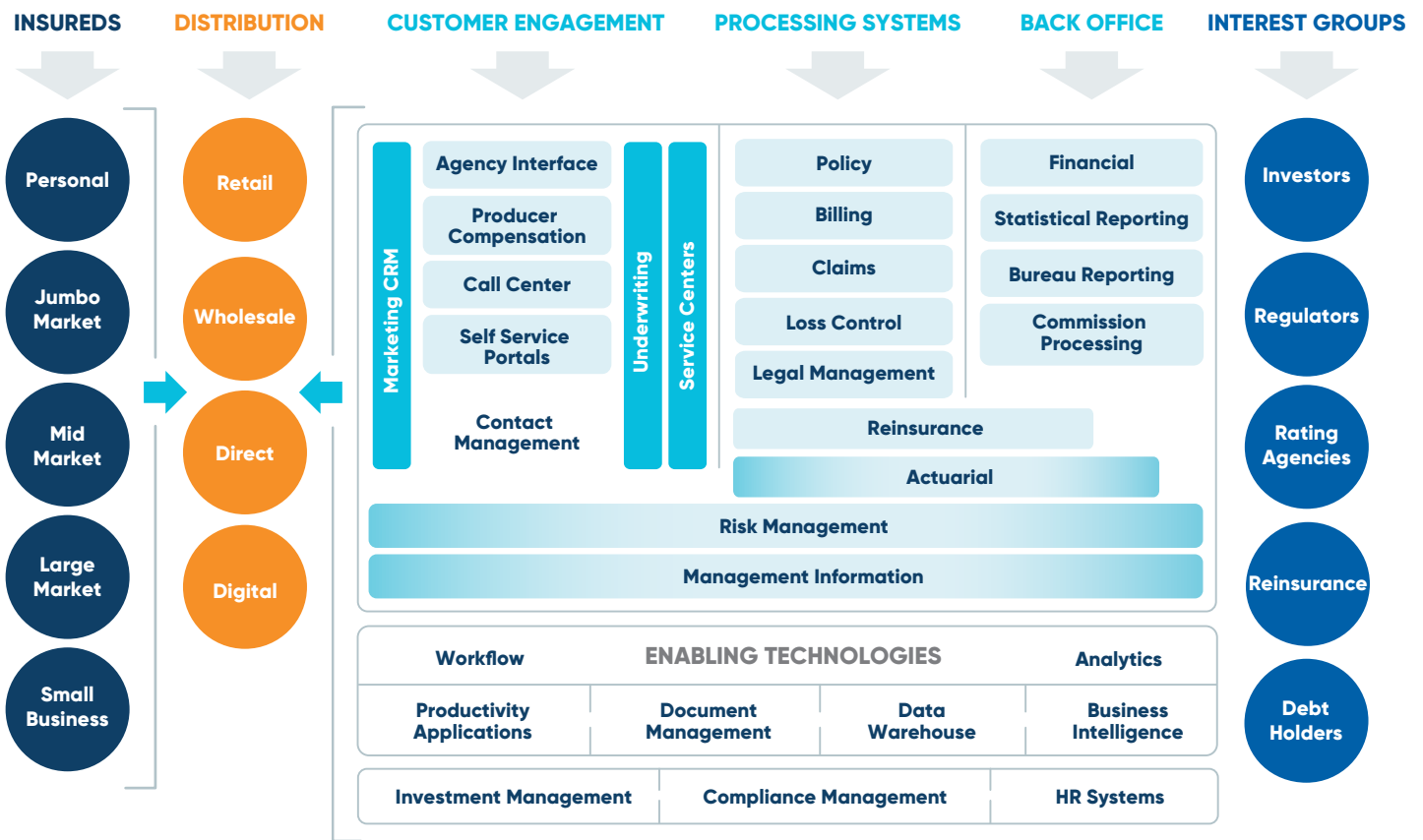


Inside the Business-Oriented Operating Model

The business-oriented operating model consists of the interrelated parties, functions, processes and capabilities common to all insurance enterprises. A review of this structure (fig. 1) reveals core insurance policy and back-office processing supported by enabling technology and processes and flanked by externally

facing capabilities that intersect with distribution channels, and ultimately markets or customers. The framework also identifies multiple interest groups – including investors, debt holders, reinsurers and regulators – whose requirements collectively represent a set of constraints on a given insurer’s operating model.

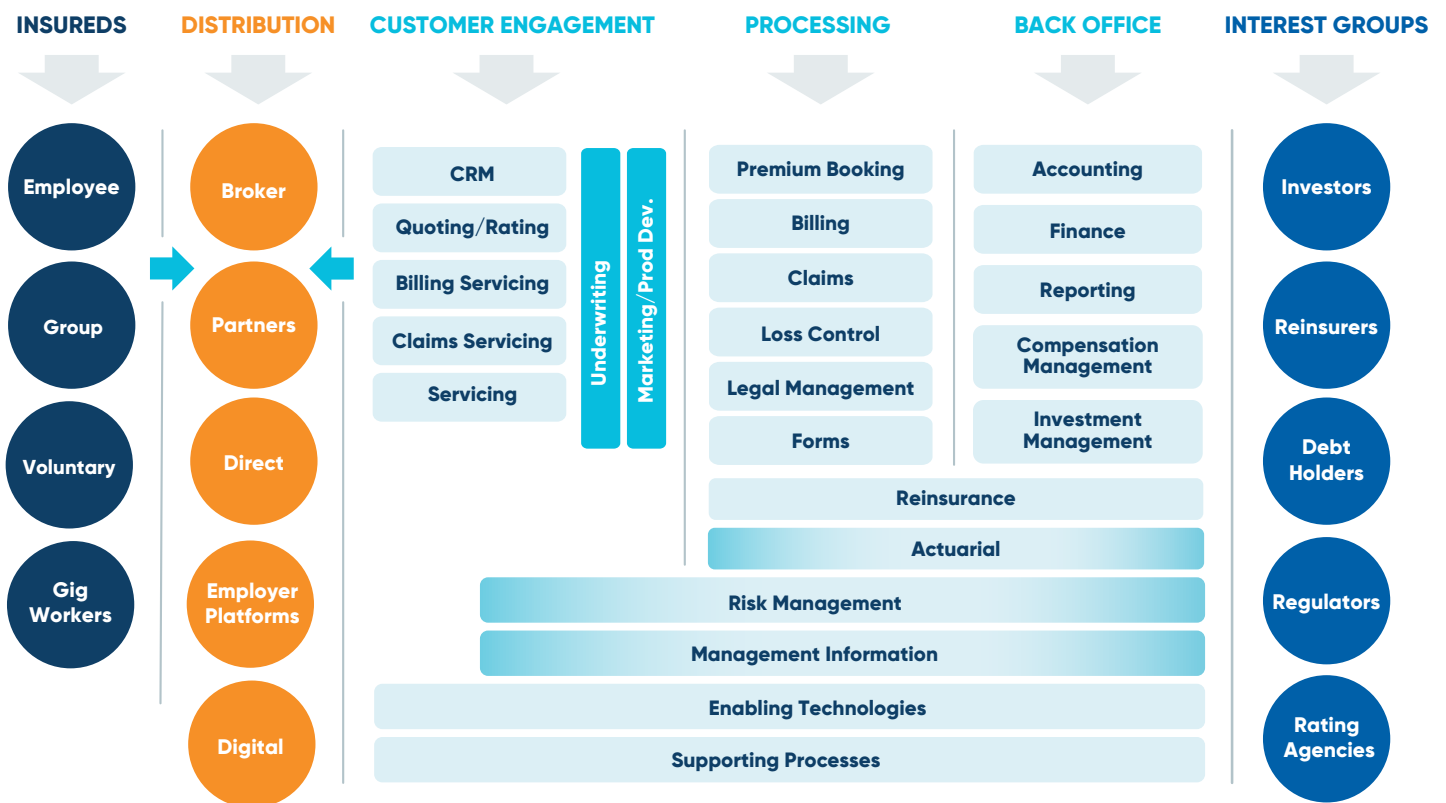
BUSINESS-ORIENTED OPERATING MODEL Figure 1



Every component of the model implies a question to the management of an insurance company about how this abstract framework will be realized in the actual processes of his or her company. In other words, the model provides each user the ability to analyze its current capabilities, identify or alter those capabilities according to business strategy and create a concrete business-oriented operating model unique to the company. Figure 2 shows the adaptation of the operating

model to an A&H carrier looking to launch new products and distribution channels within the gig economy and worksite benefit platforms. Having identified both the universal insurance functions and capabilities as well as the particular distribution channel and market, an insurer is ready to begin a thorough analysis of its operations and technology and create its own business-oriented architecture as a basis of ongoing operational planning, strategy and performance evaluation.

BUSINESS-ORIENTED OPERATING MODEL Figure 2



Getting Started

Insurers struggle with adopting optimal process and technology because their organizations have tended to function as an aggregation of managerial fiefdoms or functional silos. The industry has also historically tended to regard IT as a commodity, one symptom of which has been the separation of business process design from technology implementation. Both of these tendencies have caused tremendous inefficiency and waste: duplicate systems are implemented in multiple business units and rather than evolving organically in alignment with a changing business strategy, systems have been introduced as an afterthought and grafted together with little rhyme or reason. The Operational Model is a tool for realizing the benefits of breaking down the silos and aligning process and technology to business goals.

Putting it to work for a company begins with a commitment from senior management, whether from the chief executive officer, CFO, COO or CAO.

But implementation relies on the participation of managers knowledgeable about the business processes that correspond to all the key functional areas of the organization, under the guidance of a senior business architect. In the case of a smaller company, the team members may be executives of a given business unit, but with larger companies they are likely to be managers over specific processes. The right participant may be a senior vice president of claims, for example, in a smaller company, or a claims supervisor for a given line of business in a large enterprise.

The framework must be applied to the particular characteristics of size and type of company. Key to success is having the insight of professionals with a detailed knowledge of how business is conducted.

Applying the Principles of a Business-Oriented Operating Model

The management of an insurance company needs to understand how all the functional areas fit within a concept of the enterprise as an operational unit. That concept is formed by applying the principles of business-oriented operating models:

- **Identify Business Drivers**
- **Understand the Operating Model**
- **Align with Function**
- **Understand Scale**
- **Data is the Foundation of Insurance**
- **How New Technologies Will Be Embraced**
- **Reduce Complexity**
- **Data Flow**
- **External Forces**

These principles generate overarching questions about the nature of the company and how it will align process design and technology implementation to its operations on an ongoing basis. The first task is to identify business drivers: what are the realities of the market and the needs of distributors and customers, given the company's identified risk appetite? How does the company's operating model respond to meeting those drivers? How does the size of the company bear on the creation of process and the suitability of technology solutions? What data capabilities are necessary to support core processing, distributor and customer service and regulatory reporting requirements? How do we shape technology architecture and procurement strategy to ensure our ability to take advantage of technological improvements? How do we prevent systems and data redundancy and optimize the use of technology applications across the enterprise?

Establishing Context

More specific questions emerge as an insurer considers the business context of decisions it needs to make. The company's operating model determines specific constraints and opportunities to align technology with effective processes and improve efficiency and outcomes. The context of decisions is framed by a company's chosen market. Different constraints and opportunities emerge depending on whether a company targets personal or commercial business; small, medium or large accounts; or large or small risks. Added to these considerations, insurers must also weigh the cost of process and technology implementation with the business strategy.

Let's look at an example. A direct writer of personal lines is in a position to allocate more capital to IT in general and customer-facing technology in particular because it

is unconstrained by the need to pay agent commission. A competitor with broker distribution faces a different set of capital allocation challenges, which are further affected by the overall magnitude of the business. Larger companies may have greater freedom to adopt scalable technologies; smaller companies may face decisions about the granularity of process automation they can afford to implement.

Companies face further constraints associated with back-office statutory, regulatory and financial reporting requirements. These differ according to both line of business and geography: for example, a farm bureau insurer in the Midwest faces very different regulatory and reporting demands than a large commercial carrier operating in the European Union.

Matching the Goals to the Operating Model

An insurer must also identify the goals of its business-oriented operating model as aspects of how the company will differentiate itself in the market. Goals may be broad strategic intentions, such as growth and expansion, or they may be hierarchies of subordinate capabilities implied by those larger strategic goals. For example, an insurance carrier may aim at simplifying its systems profile, improving flow and accessibility of information, increasing analytical capabilities and providing technology-driven decision support to achieve more effective risk selection and pricing—aimed at improving profitability.

Every goal identified will have implications for enabling technologies and processes. A company that has set growth as a goal will need to consider the implications of a strategy based on organic growth, growth by acquisition or a combination of both. If it aims at acquisition, will it seek to consolidate enterprise systems or leave systems more or less intact in support of a federated business unit model? A more centralized operating model may imply a greater commonality of systems across the enterprise. A decentralized company that depends on localized expertise may strike a different balance between applications and data and communications infrastructure. Companies seeking to distinguish themselves on the basis of risk selection will

have an architectural profile that supports the collection and processing of third-party data, integration of those sources into workflow and the implementation of advanced risk modeling capabilities.

Architectural decisions are further constrained by the impact of all the stakeholders associated with the enterprise. These range from the demands and needs of internal parties, such as the board, the senior management committee and employees generally; to the distribution channel; to investors and debt holders; and various regulators and rating agencies.

All of these roles imply some degree of information flow, and the systems that support it. For example, debt holders will require transparency with regard to operating parameters to be able to monitor the integrity of covenants. Board members will want access to relevant management and reporting information, regulators and rating agencies may require certain statistical reporting feeds or frequently updated risk management information. Producers need access to underwriting capabilities, end customers need access to policy and billing data, either directly or through service capabilities, and employees need all of the applications and infrastructure access associated with their roles.

Assessing Current-State Process and Technology

In the absence of an explicit business-oriented operating model, insurers have tended to accumulate various levels of technology rather than rationally evolving technology to meet changing business needs with ever-improving technology. Consequently, few insurers come to the business-oriented operating model from a technology “green field” perspective. Most insurers’ systems environments are a kind of “Grand Canyon” of layered technological deposits corresponding to the different eras of business technology, e.g., web capabilities, functional integrations made to allow for

Insurtech advancements, workflow automations, and microservices. In these environments, disparate and often scarcely compatible technologies exist side by side with varying degrees of integration, while acquisitions simply pile on old and new layers from other realms. Insurers may have attempted consolidation solutions such as Guidewire, Duck Creek or Majesco, but they may find themselves lacking a true consolidation within data, rating, claims, business intelligence and reporting. For insurers to create new market solutions, the model will need to account for these technology layers.

Guiding Principles of Technology Enablement

Taking current systems and processes from their current state to the next stage in the evolution of business-oriented operating models is an exercise in the art of the possible. Evaluating current-state capabilities in light of business goals yields decision-points as to the future disposition of systems and processes.

Guiding Principles

- **Build**
- **Acquire Capability**
- **Buy Best of Breed**
- **Integrated**
- **Outsourcing**

Architecture Goals

- **Maximize Integration**
- **Introduce Digital Capabilities**
- **Increase Timeliness of Information**
- **Increase Flexibility**
- **Institute Repeatability**
- **Implement Usable Tools for the Business**
- **Keep Customer Service Excellence as a Primary Driver**

Once an insurer knows what capabilities are needed to support a given goal – such as implementation of a new technology or insurtech capability – a decision will need to be made about how to get there given the constraints of cost, needs of stakeholders, etc. More decisions will be needed about whether to standardize on a given system or a minimal number of systems, or whether to invest in a new system for reasons of functionality or total cost of ownership. If a new system is called for, it may be necessary to build it in house, in the case of a specialized area of business where few or no market options are available. Few carriers today are likely to build large complex systems, such as policy

administration applications, when options exist in the marketplace, but they still must decide what capabilities are most suitable, and whether their current constraints dictate a fully integrated solution or best-of-breed components implemented incrementally.

Thinking ahead is crucial. Systems need to be built with an understanding that flexibility for the future is essential. Insurers don’t know what technologies lie on the horizon, but they must build as if these emerging technologies will be crucial to operations and competition. New technologies will fuel growth, open distribution channels through APIs, create greater

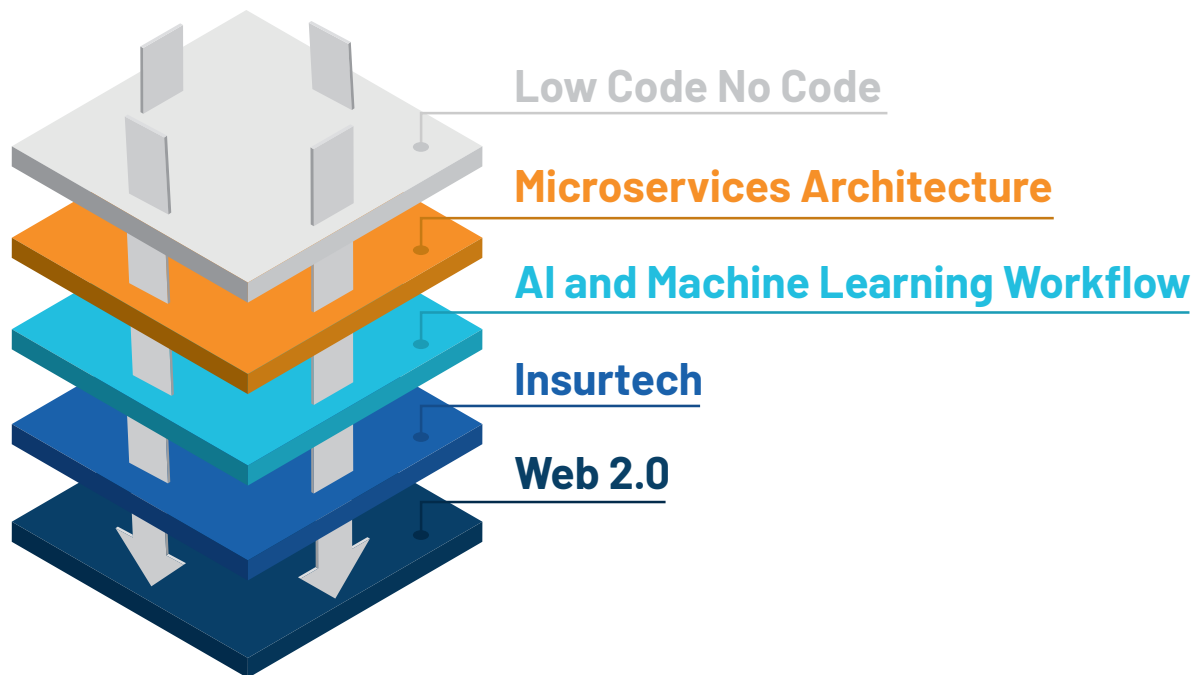
efficiencies through No Code / Low Code and lower risk through microservices that are available through APIs. (see fig. 3) A business-oriented operating model will reserve space at the system table for these up-and-coming game changers.

Insurers increasingly enjoy cloud-native applications and services. A variety of technology applications and business processes are also available on an outsourced basis, giving insurers greater choice and flexibility with regard to both price and the need to hire and retain permanent internal staff.

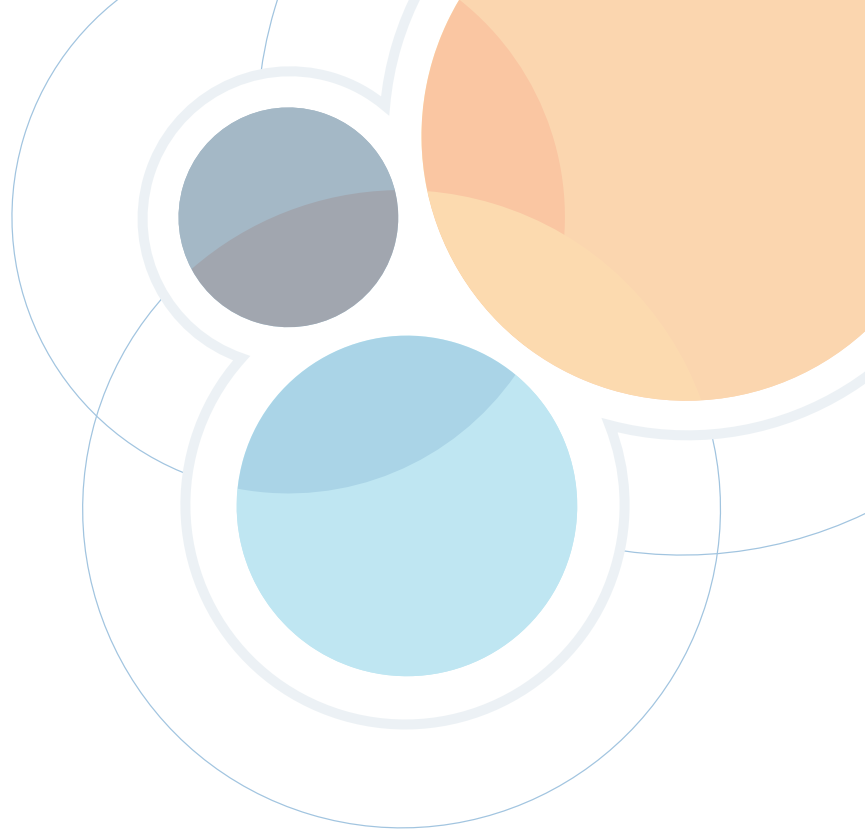
All of these decisions must be guided by the technology and process architecture goals of minimizing cost, maximizing integration and increasing the timeliness

of information. Minimizing cost means not spending less, but investing in the best capabilities within the constraints of process and cost. Maximizing integration helps to reduce systems redundancy and inefficient manual processes, while also improving the integrity and currency of data. Increasing the timeliness of information addresses a variety of demands that arise from a general increase in the velocity of business. An insurer that can create and circulate highly reliable data faster at lower cost is in a position to more efficiently support internal underwriting, investment and strategic decision support; provide service with greater promptness to distributors and end customers; and meet the evolving demands of regulators and rating agencies.

SOLUTIONS Figure 3



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