Aite Novarica

[INSURANCE UPDATE]

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"The pandemic has been the catalyst for regulations and the relaxation of certain requirements. Premiums are down overall, but insurers continue to invest in new capabilities. COVID-19 claims returned to a greater percentage of indemnity vs. medical losses.

DEB ZAWISZA
SENIOR PRINCIPAL

HARVESTING REQUIRES THE RIGHT PLAN(T)

Last year, Top Gear alum Jeremy Clarkson learned firsthand that running a farm successfully starts with planting the right seeds in the right fields at the right time. Many insurers are hitting the peak of planning season, which for many means increasing their investment in technology capabilities.

Early results from our 2022 budgets and projects survey show that while investment on the L/A/B side is fairly level, the average IT expense ratio for P/C insurers is a bit higher than last year. This is mostly due to midsize P/C insurers bumping up their investment to 6%-8% of direct written premiums. Distributor ease of business, speed to market, and reporting and analytics continue to be top priorities for 2022.

Most insurers conduct a fairly traditional planning process. It involves top-down executive planning, followed by departmental planning. All too frequently, IT is the "last-in" business plan to be completed, becoming the first point of resource constraint, driving the need for re-prioritization and rescoping very late in the game.

Effective CIOs consider the planning season to be an extension of IT's regular business relationship management. Successful business planning often involves all levels of the organization, soliciting feedback from team members through facilitated SWOT exercises or brainstorming sessions.

Some insurers successfully employ a lean approach, leveraging frameworks like Hoshin Kanri that provide a well-defined process and set of tools to establish, implement, and continuously improve goals. Others approach with broad strokes at the highest level and use concepts like block funding to push business and investment planning down to the business-unit level. Regardless of your approach, great business planning is an ongoing process and a natural result of great IT and business alignment.

This autumn's seeds are next year's harvest. Please let us know how we can help tend to your plans.

PERSONAL LINES: INCREASING DIGITALIZATION BRINGS FRAUD AND IDENTITY CHALLENGES

BY MARTIN HIGGINS

The frequency of customer interactions in personal lines has made these insurers fast adopters of technology, both to drive customer experience and to improve their own efficiency and profitability. While it is ahead of other sectors, COVID-19 has led to dramatic changes in personal lines, necessitating a revisit of current practices.

Distribution Trends

Integrating point-of-sale systems with multiple insurers' core systems via APIs is accelerating direct sales growth. Direct auto insurers such as Progressive and GEICO are partnering with other insurers to offer homeowners, umbrella, and other coverages through their direct channels.

In addition to direct distribution, insurers are using other types of outlets such as banks, workplaces, associations, and car dealerships to access potential policyholders. Car manufacturers, dealers, and startup companies have been offering car "subscriptions," which allow the use of cars for monthly fees — including insurance, maintenance, and roadside assistance — as alternatives to leases or purchases. Insurers are also experimenting with embedded insurance, using APIs to offer insurance at the point of sale or as part of ridesharing platforms.

The Internet of Things: Apps and Social Media

Insurers are white-labeling products from companies with specialized capabilities or expertise, such as American Integrity Insurance Company offering Centriq's Home Platform App. The app alerts homeowners to recalls and enables them to catalog and manage appliances, equipment, and systems. It also offers maintenance tips and provides access to how-to guides, links to Amazon for ordering parts, parts and accessories guides, and online user manuals through a partnership with Hartford Steam Boiler.

Increased Fraud

As is common with any economic downturn, application, claims, and underwriting fraud have increased significantly. Some criminals are taking advantage of data pre-fills for applications,

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providing a small amount of data, obtaining even more from pre-fills, and turning around and using that data to falsely claim unemployment insurance.

Heavy digitalization has many advantages for insurers, but they must also make investments in fraud detection and prevention and identity verification. Personal lines insurers are investing most heavily in fraud solutions for the service and claims functions. A multilayered approach to fraud detection and prevention and identity verification is required. Aite-Novarica Group has addressed the issue in its report Insurance Fraud: Rethinking Approaches in the Digital Age.

Increasing Digitalization

In core systems, Aite-Novarica Group sees greater adoption of headless implementations in the personal lines space, where the insurer provides the user interface for agents and consumers on top of a vended solution. Insurers are developing new digital products with separate expense ratios, pricing algorithms, marketing, and self-service capabilities. Most of these new product offerings do not offer paper document delivery as an option.

Insurers and vendors are moving toward building architectures based on microservices instead of vended solution web services and APIs. Vendors that traditionally have focused on document creation and management, e-commerce, or marketing automation are positioning themselves as providers of portal capabilities. Low-code digital experience platform providers (DXPs) are also putting themselves forward in this space.

Mobile and Telematics in Personal Auto

Mobile applications are increasingly common in personal lines, with mobile accident checklists, agent locators, and claims submissions now considered basic capabilities, though consumer adoption is far from universal. Less common capabilities include capturing application information from photos of drivers' licenses, real-time viewing of repairs, support for text to pay, and video chats.

Aite-Novarica Group estimates current telematics penetration rates at approximately 6%-8%, though policyholder adoption can vary substantially between insurers. Adoption is expected to increase slowly but regularly over the next several years. Insurers are seeing increased interest in telematics-based, pay-per-mile programs as COVID-19 continues to curtail driving activity. Some insurers have begun to partner directly with auto manufacturers to share telematics data and offer policies to drivers.

The Impact of COVID-19

Positive effects include the fast-tracking of digital initiatives that might have encountered institutional resistance before COVID-19. Reduction in business activity, claims frequency, and premium volume meant that insurers had to revisit existing models and their underlying assumptions. Claims frequency may be returning to pre-pandemic trends, though some observers note the duration and timing of driving is changing, particularly in urban areas. Hybrid work and remote work may explain some of the change.

Recent Financial Trends

A.M. Best reported improving personal auto profitability, thanks to an increase in remote work and shelter-in-place orders, with a 2020 pure loss ratio of 55.9 compared to a 2019 pure loss ratio of 64.6. Homeowners/farmowners insurance saw an 8.5-point increase in pure loss ratio between 2019 and 2020 because of higher-than-average catastrophe losses. Personal auto claims frequency declined, though severity has increased due to increased medical and repair costs, as well as some drivers taking advantage of the decreased traffic to drive faster, resulting in higher fatalities.

Technology Priorities

Personal lines insurers are investing in insuretech startups to accelerate learning and diversify R&D efforts, using AI to speed the claims process, deepening their knowledge of the customer, reducing earnings volatility through analytics, and improving self-service capabilities. Core systems remain a high priority to establish a base for future capabilities.

NEW VACCINATION REQUIREMENTS AND INSURER RETURN-TO-OFFICE PLANS

BY HARRY HUBERTY

As the delta variant has contributed to rising COVID-19 cases in many regions of the country, insurers have been delaying or redesigning their return-to-office (RTO) plans. Those plans must now change further to take a new factor into account: vaccinations.

On September 9th, the Biden Administration announced that all businesses with 100 or more employees must ensure that their workers are vaccinated against the coronavirus or submit weekly negative tests before returning to the office.

Details around this new rule, which is being developed by the Occupational Safety and Health Administration (OSHA), are still taking shape. What we know right now is:

- Workers must either be vaccinated or produce a negative test result on at least a weekly basis before coming to work.
- Businesses will be required to give employees paid time off to be vaccinated and to recover from side effects.
- As reported by the Washington Post, businesses that ignore the new policy could face penalties of up to $14,000 per violation.

This new rule will affect hundreds of insurers. While it relieves them of making the difficult decision to require vaccinations, they will now face the challenges of implementing it: ascertaining vaccination status, monitoring test results, adjusting work schedules, and maintaining compliance.

Deciding whether or not to create a vaccination requirement has been a major question for insurers. In a May 2021 snap poll of insurer CIOs, more than half thought it likely (or at least possible) that not having clear guidance would expose them to risk. But vaccination policy is a potential minefield for any employer, creating privacy concerns and eliciting strong reactions from employees, both in favor and against.

Only 15% of insurers previously planned to require their employees to be vaccinated. But that figure masks considerable uncertainty, especially around the risks of the delta variant: In an August 2021 follow-up snap poll, some 40% of insurers indicated they were either revising their RTO policies around vaccinations or considering doing so.

In the same poll, 12% of insurers said they would now probably require employees to be vaccinated, even though they previously hadn't. Insurers widely cited vaccination policy and unclear federal and local guidance as major concerns for returning to the office.

This new rule settles those questions, and it will come as a relief to insurers who had been grappling with whether to create their own requirements. For all insurers, though, there are now challenges around how exactly to implement it. There are still a lot of unknowns around the rule's specifics, including the timetable for compliance.

Aite-Novarica has been monitoring insurer RTO plans through recurring snap polls of our Insurance Technology Research Council and has published an update on changes in RTO planning for Q4 2021 and Q1 2022. RTO is top of mind for many insurers. While new requirements create some clarity, they add additional complexity to a situation that was already difficult to manage.

HOW TO SAY NO

BY DEB ZAWISZA

The prospect of answering a simple yes-or-no question becomes a lot more complex when you add compassion, guilt, accountability, fear, and self-discipline into the mix. Workplace requests can generate feelings of personal accountability in women. However, you could end up overcommitting or even burning out when you don't say "no" in situations you know you should.

Last week, I hosted the 17th Virtual Meeting of the Aite-Novarica Women's Network on the topic of how to say no. Our panelists, Pennsylvania Lumbermens Mutual Insurance Company VP Erin Selfe, Society Insurance Director Cheryl Starling, WCF CIO Debi Mofford, and F&G COO Bonnie Wasgatt, shared their thoughts on how to say no. I've included some highlights from our conversation below:

Formulate a strong sense of your priorities in advance to avoid unwanted outcomes.

Women can struggle with feeling empowered to say no to requests that feel like commands. Women in leadership roles may find it difficult to say no to things they are passionate about or where they feel they could make a difference. Women at all levels can encounter setbacks to setting firm boundaries when faced with negative reactions, situations that elicit guilt, or pressure to fit into a majority-male environment.

It's a good idea to be judicious when deciding whether to say yes or no to a request. Listen to your gut instinct, and don't be pressured to accept on the spot. Decide how much time you're willing to commit to a project before you walk into a meeting.

Panelists' strategies for saying no included suggesting alternative solutions and being candid about why they're declining. One panelist suggested the "bake-sale no" as a way to split the difference. If you offer an alternative, such as directing the person to online resources or walking them through the steps you would take, you're still providing help, just not the quantity of time and effort originally requested: "I bought the dough and I baked them!"

Emotional intelligence strategies can help preserve and strengthen interpersonal relationships.

An audience member asked, "Do you think it's always necessary to explain why you're saying no?"

All four panelists agreed that it is more important to explain the reasons behind your decision when you have a personal relationship with the asker. While it's easy to say no to a stranger, work or personal relationships can pose a variety of challenges.

One panelist related a story of being asked to do something in a public meeting without advance notice and facing pressure to say yes in front of a group. She exited that situation by expressing appreciation for being asked and suggesting that she and the asker pick up the discussion later. Another panelist shared that she struggles to say no to her daughter, because she wants to encourage her to ask for help more often. It can also be difficult to say no to your boss or colleagues at any level who appear to be struggling.

Using emotional intelligence strategies can help your "no" go down smoothly. Be attentive to body language as well as the substance of what's said, and review written messages to ensure they don't come across differently than intended.

QUANTUM TECHNOLOGY AND INSURANCE: THE FUTURE, TODAY

BY TIFFANY WANG

PsiQuantum raised $450M in a Series D funding round led by BlackRock, Temasek, Microsoft, and Baillie Gifford to build a one-million-qubit, commercially viable quantum machine. This latest round of funding brings PsiQuantum's valuation to $3.15B.

Notably, PsiQuantum is partnered with GlobalFoundries, a California-based semiconductor and silicon photonics manufacturing giant rumored to be on Intel's acquisition list (valuing GlobalFoundries at $30B).

PsiQuantum's partnership with GlobalFoundries provides further evidence that a commercial quantum machine has evolved far past its origins as scientific theory; it may soon become a mass-produced, silicon-bound reality.

Quantum technologies are already reshaping the business world as we know it. Vast funds have and continue to change hands as the quantum ecosystem has expanded over the past decade, entangling "sci-fi" startups and research universities as well as leading professional services and financial services firms.

Multiple leading financial services firms (including Allianz, AXA, Goldman Sachs, JPMorgan Chase, Mastercard, Progressive Insurance, Visa, and Wells Fargo) have made significant investments in quantum research over the past few years. It should come as no surprise that quantum technologies are expected to generate as much as $850B in annual business value within the next twenty years.

Insurer CIOs, CISOs, and CTOs looking to catch the quantum wave should begin efforts to incorporate a multi-pronged quantum strategy into their near-term IT roadmaps. Given the looming threat of ransomware attacks and cyberattacks from quantum machines, insurers should consider exploring quantum security vendor offerings to future-proof enterprise and policyholder data.

Increasingly, quantum vendors are developing products designed for banking and insurance. Multiple companies offer meaningful speedups of Monte Carlo methods and similar algorithms. Quantum's promising applications in finance, including better reserving, fraud detection, and portfolio optimization, could mean that insurers that explore and adopt quantum early will stand to benefit from a competitive, market-share-determining edge over their peers.

Read the full report, Quantum Technology and Insurance, for an in-depth look at quantum theory, key vendors, financial services applications, and actionable recommendations for insurers exploring quantum strategies.

NEW REPORTS

Here's a summary of recently published reports, including studies of insurers' technology experiences, capabilities, and plans from our Research Council; business and technology trends; CIO best practices; vendor information in our Novarica Market Navigators; and recent webinars and presentations. All of the research summarized here is available for download by our advisory clients at aite-novarica.com. Research reports can also be purchased individually.

EXECUTIVE BRIEFS & REPORTS

INSURANCE CX TECH 100: OVERVIEW AND VENDOR INDEX

INSURANCE FRAUD: RETHINKING APPROACHES IN THE DIGITAL AGE

THIRD-PARTY ADMINISTRATORS MARKET OUTLOOK

REGULATORY REPORTING: OVERVIEW AND PROMINENT PROVIDERS

RETURN-TO-OFFICE PLANNING: Q4 2021 AND Q1 2022 CHANGES

SURETY: TRENDS, OPPORTUNITIES, AND CHALLENGES

RESEARCH COUNCIL STUDIES

LIFE/ANNUITY/BENEFITS INSURER IT BUDGETS AND PROJECTS 2022

PROPERTY/CASUALTY INSURER IT BUDGETS AND PROJECTS 2022

AITE-NOVARICA 100 DIGITAL, DATA, & CORE CAPABILITIES FOR L/A/B INSURERS

NOVARICA MARKET NAVIGATORS

DISTRIBUTION/COMPENSATION MANAGEMENT SYSTEMS

AITE MATRIX: P&C NONBANK DISBURSEMENTS PLATFORMS

BUSINESS TECHNOLOGY TRENDS

WORKERS' COMPENSATION

PERSONAL LINES

BLOG SPOTLIGHT

PRINT THE LEGEND

BY KEN TOFFOLO

CIOs are focusing on technology and efficiency improvements, including consolidation, enhancement, or replacement of core policy admin systems. Several are also aiming to grow their commercial lines business by expanding into new states and/or developing new products. Many of those new products will require better data.

THE SEGMENT OF NO DATA

BY PAUL LEGUTKO

Companies may be feeling that "could doesn't mean should" when it comes to work travel, conferences, and other external meetings. But, for some folks who have not been to branch offices or their company's space in months, restrictions have loosened up enough to allow workers to spend time back in their desks.

REGULATORY REPORTING PROVIDERS HELP INSURERS FOCUS ON STRATEGY

BY STEVEN KAYE

P/C insurers work with regulatory reporting service providers to ensure data is in the proper format for regulators, advisory organizations, and statistical agents. Regulators use this data to assess insurer rates and rating plans and understand emerging issues. Insurers benefit from better predictions of loss costs/experience as well as from outsourcing the work to service providers.

To read more, visit aite-novarica.com/insights/blog

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Aite Novarica

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Aite-Novarica Group offers services such as our Insights and Advisory Service, covering Banking & Payments, Insurance, Securities & Investments, as well as cross-industry Risk domains such as Cybersecurity and Fraud & AML; our Executive Partner Service, served by our team of former CIOs and CTOs to help executives and their teams tackle their most pressing challenges; Strategy Consulting, which provides comprehensive strategy, operational, and technology consulting engagements; Custom Insights to develop long-term growth plans; and Events, including in-person and virtual conferences.

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