Aite Novarica

[INSURANCE UPDATE]

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"No one can or should expect perfection from cloud providers, just as they can't expect it from on-premises data centers. One advantage of using a cloud provider is that everyone can rest assured that restoration is the provider's top priority.

JOHN KEDDY
SENIOR PRINCIPAL

STEP QUICKLY! THE FUTURE HAS ALREADY ARRIVED.

The end of the year is a natural time to consider where we are and what the future holds. The world has changed, presenting us with new challenges and opportunities.

Labor markets. Economists describe the current labor market changes as the most significant since the World Wars. "The Great Resignation" is real. New, resilient employee and employer relationships are possible and will become a source of future competitive advantage.

Demographic changes. The youngest baby boomers will reach retirement soon. Organizations need to transfer institutional memory and knowledge to new generations with different perspectives on career development and durability. Knowledge management and transition support will be far more dynamic from now on; there are competitive advantages for those who can adapt.

Digital strategies. Aite-Novarica estimated early in the pandemic that we'd see five years' worth of advancement in six months. This estimate was likely conservative. The ability to operate digitally is table stakes, and making the correct investments now is a key form of competitive positioning.

Shorter investment usefulness. Some old technologies could persist into the future; they might even outlast some new ones. Navigating this duality will reward organizations that can manage their technology portfolios. Agility will depend on making the right decisions in an increasingly complex ecosystem.

We've suffered tragic losses and built new operational muscle. Customer preferences have changed, as have distribution capabilities. Capital has been invested, and surprising opportunities have emerged.

Yogi Berra once said, "When you get to the fork in the road, take it." We are here now. What comes next may have challenges, but it should also hold opportunities to excel. Bring on the New Year!

GOING PERPENDICULAR

BY JEFF GOLDBERG

Insurers in North America have always preferred vertically focused (e.g., insurance-specific) vendors.

There are many reasons for this, but the most prevalent are:

Practical: Insurance is a highly regulated, multi-faceted (i.e., driven by independent state bodies) industry that does not lend itself to taking a system built for multiple uses and applying it to insurance problems.

Cultural: Insurers don't like being lumped into the "financial services" category, assuming that means a banking focus. They tend to gravitate toward vendors who build their marketing and messaging around insurance-specific needs.

The "cultural" reason is a learned outcome of the "practical" reason: Insurers have been burned in the past by vendors who didn't fully understand their domain.

Regardless of this historical, insurance-only leaning, more horizontal technology vendors are looking to build out their insurance vertical focus and messaging.

There are also two primary reasons for this trend:

Financial: As a group, insurers spend a lot of money on technology! Horizontal technology players focusing on the insurance vertical is the flip side of all those venture capital dollars going into insuretech startups.

Non-insurance vendors and external investors are looking to capture more insurance industry IT market share.

Technological: Many of the emerging technologies that are critical to insurer plans rely on massive amounts of data and scale. This means that technologies like machine learning, machine vision, RPA/IPA, document extraction, and advanced analytics often start from a horizontal approach before being applied to specific industry problems.

When it comes to these technologies, industry-agnostic platforms or multiple-industry platforms might be better suited to support insurers than a single-industry vendor.

Regardless of the "why," it's important to think about the "how" of horizontal vendors selling to insurers.

Insurance companies will benefit from understanding how a horizontal vendor is catering to their specific needs, and horizontal vendors will benefit from having a plan for their vertical approach.

There are three ways a horizontal technology vendor can choose to build out verticalized offerings for the insurance industry. Each of these three approaches is fine, as long as both the insurer and the vendor are clear about what they mean and how that is communicated

1. Marketing/branding only: A horizontal vendor can choose to sell to the insurance vertical by creating a targeted message. This means hiring insurance subject matter experts; creating a dedicated insurance area on their website;

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cataloguing insurance-specific use cases and how a solution can solve/improve those use cases; gathering case studies from existing insurer clients; and creating industry thought leadership in the form of blog posts, white papers, and webinars. (It also means avoiding lumping insurance into the "financial services" option in the "industries" drop down on the website. Give insurers their own link!) There's no building of any insurance features in this approach; it's about helping insurers understand how to use the existing horizontal system for their own purposes.

Not every horizontal vendor needs to build specific insurance product features to be of use to the industry. Taking the time to understand the industry and to organize specific information for potential clients can help insurers understand how and why to use a solution. It can also help make clients more successful in the long run. It's a relatively low-cost way of boosting presence in the vertical.

2. Building an insurance community: It's possible (and encouraged) to build tools and offerings specifically for insurers without creating an entirely vertical offering. A real vertical community includes user groups, events, community-sourced reusable components, and sharing across members. Horizontal vendors can build and maintain insurance-specific templates and accelerators; the difference between the template approach and a product approach is that the vendor is not committing to long-term support of the templates.

This approach is a great way of providing value unique to insurers without moving away from the core mission of the horizontal technology platform. It allows insurers to work with the vendor and other insurers to go to market more quickly and use the horizontal tech in ways that are targeted to insurance industry needs.

3. Build (or buy) and support insurance vertical products: One way for a horizontal technology vendor to take on a vertical approach to the insurance industry is to actually take a vertical approach to the insurance industry. Create products specifically (and exclusively) for insurers! Unlike the communicate approach with templates and accelerators, this approach has very clear lines about what constitutes the insurance offering, how it's supported by the vendor, and the insurance industry messaging. For vendors who otherwise offer general platforms, this might mean building on top of their own platform and then selling an insurance solution that hides some of that core underlying platform configurability.

This is perhaps the most obvious way to go vertical, but also the most expensive. More importantly, it's the most disruptive for the horizontal vendor, because it can mean sacrificing the horizontal vision and message in order to create customized solutions for insurers. But for a vendor who truly wants to be considered an insurance expert, this has historically been the way to break through those practical and cultural limitations to selling within the insurance industry.

All three of these approaches share a need for industry subject matter expertise, thought leadership, dedicated insurance space on the website, and optimized insurance messaging. Any horizontal vendors looking to sell to insurers should start from there and then build up toward their preferred strategy in the insurance industry.

Any insurers working with a horizontal technology vendor need to understand how that vendor is catering specifically to their needs in order to get the most out of the relationship. This also means avoiding confusion about what the ongoing support will cover.

One other thing for insurers to keep in mind: This is not the first time we've seen an increase in horizontal technology vendors building, buying, and/or marketing their way into an insurance vertical message.

Will horizontal vendors continue to aggressively support the insurance vertical in the future? Or will they lose interest over time and devote resources elsewhere if the insurance revenues don't pan out according to plan? We've seen that happen before as well. An insurance-only vendor doesn't have the option of pivoting away from insurance, but a horizontal vendor can always go back to focusing on an "all industry" approach. If that happens, will they still be the right partner and the right solution? Insurers need to make sure their critical business is supported either way.

A PRAGMATIC VIEW OF DIGITAL COVID VACCINE CREDENTIALS

BY INCI KAYA

The concept of digital COVID-19 vaccine passports has gained momentum since New York City's August pilot program, though the term "passports" has been replaced by "credentials." States like Massachusetts and California are putting digital record measures in place, seeking to establish a standardized and secure framework.

Businesses that thrive on groups gathering have decided to require such measures to avoid a repeat of 2020, when their businesses shut down and their livelihoods hung by a thread. Concert halls, sports arenas, movie theaters, entertainment venues, and restaurants have found vaccination records to be the most practical way to open for business and stay open, hopefully with a return to profitability.

Schools and universities are following similar protocols, requesting vaccination records, testing frequently, and maintaining masking practices. This may not be ideal, but repeating 2020 was a worse option.

Standardizing the Rules, Paying the Bills, and Adapting to a New Normal

The practical benefits of digital vaccine passports do not erase the need for those records to be secured. A data breach would hurt public trust and cause another round of uncertainty that could take months to untangle.

The World Health Organization as well as Vaccine Credential Initiative, of which EPIC, Cerner, Allscripts, and Athenahealth are founding members, are among the international entities working to establish a framework to address this issue.

Then there is the matter of who pays the bill for these security measures. In the case of state or federal mandates, responsibility could fall on the issuing state and federal entities. Businesses that require patrons to present records may also be required to contribute a token amount of their earnings—similar to paying for a utility they rely on to conduct business.

Long term, COVID-19 vaccine records will become a line item in our health records. Just like new students must produce up-to-date vaccination records and some employees have to undergo drug tests for new jobs, employers are now asking for candidates' vaccination records.

Implications for Health Plans, Technology Providers, and Individuals

The use of digital vaccine records can help health plan providers encourage vaccinations, reduce the pool of members susceptible to the virus, and reduce the likelihood of hospitalization. For vendors with EMR relationships, this is an opportunity to leverage those records; secure the data with measures based on WHO or other standards; and promote them to state and federal agencies, business groups, and associations.

Vaccinated individuals are now free to travel and resume social events using common-sense measures like masks. They may even be viewed as more desirable job candidates. (Of course, the omicron variant may change all of this). Unvaccinated people face a far higher risk of contracting and spreading the virus, as well as being left out of social events and venues until the pandemic is in the rearview mirror; given variants like delta and omicron, that may well take years. Concerns around personal medical records are valid, but missing out on life is not a pragmatic option.

THE MUTUAL LOYALTY CONTRACT

BY NANCY CASBARRO

As 2021 ends, companies across all industries are adjusting their strategies for 2022. Each industry has felt the pandemic differently, but one critical challenge has impacted them all: talent.

Reassessing Business Relations

Some employees are leaving the workforce early, while others are opting for a career change. Remote work has opened up opportunities for talent without requiring a move.

The "Great Resignation" may appear to have happened overnight, but it has been building for several years. The mutually beneficial loyalty contract between employer and employee ended when employers eliminated defined benefit contribution pension plans and began downsizing and outsourcing for cost benefits.

Large corporations that once offered loyal employees stability have replaced these relationships with cost containment.

Baby boomers had the luxury of the loyalty agreement, but it all but disappeared for Gen X. Millennials and Gen Z watched as the generations before them experienced this collapse and vowed not to repeat that mistake.

New defined contribution retirement plans were touted as flexible and transferable ways to save for retirement, but they shifted the long-term burden to employees.

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Reacting to Talent's Demands

Companies have been in the driver's seat for many years. Talent was available when and where companies needed it, and the retention of that talent seemed to be at the employer's will. That has changed.

The power now lies with the skilled individuals companies need. Some companies are still trying to play by the old rules and facing dismal results. Others are trying to take a more active approach by offering remote work options, new benefits, and signing bonuses. But the focus still appears to be on recruiting when retention is where even more benefit lies.

According to the Association for Talent Development, poor employee retention will cost organizations US$430 billion annually by 2030, and higher retention can increase profits by up to four times. So why are companies not more engaged in retaining their talent before the resignation is submitted?

Boomers will continue to leave the workforce in greater numbers, and Gen Xers are not a large enough pool to fill the gap. Based on the experience of prior generations, millennials and Gen Z anticipate working short stints to expand their knowledge and then look for the next opportunity. The cycle of attracting, training, and losing talent does not seem to have an end.

How can companies bring back the mutual loyalty contract? And will the next generation of talent buy into it and believe in it? It is incumbent on employers to determine how to even the playing field again. A resurgence of the defined benefit pension plan might be a nice place to start.

ARE YOU A DATA BROKER?

BY PAUL LEGUTKO

California law requires companies determined to be data brokers to register with the California Attorney General on its website on or before January 31st after each year the business is determined to be a data broker. The law defines a data broker as "any business that knowingly collects and sells third parties the personal information of a consumer with whom the business does not have a direct relationship, subject to specified exceptions."

The registry entry for a data broker includes the company name, a contact email address for addressing data privacy concerns, the company website, the company physical address, and how a consumer may opt out of a sale or submit requests under the CCPA. It also includes how a protected individual can demand the deletion of information posted online under Gov. Code sections 6208.1(b) or 6254.21(c)(1) and websites with additional information about data collecting practices.

Consumers can use this registry to request a copy of any data brokers possess about them and request it be deleted. Data brokers have 45 days to comply with any consumer requests or they may face fines and penalties. Failure to comply may result in injunction and liability for civil penalties, fees, and costs in actions brought by the Attorney General. Any recovery is to be deposited in the Consumer Privacy Fund.

Solution providers should regularly review their offerings and ensure they follow all country, cross-geographic, local, and regional data privacy directives. They should have personnel, solutions, procedures to address data removal and procedures requests and post information on their data collection practices.

Large-scale data removal may have consequences for the data set's usefulness for analytics and AI, something insurers and solution providers need to consider and have plans to address. One option is to use synthetic data, e.g., data generated based on statistical sampling of actual confidential data that does not result in breaches of confidentiality or privacy.

However, vendors and insurers need to keep in mind that "de-identification" means straightforward removal of PII from the database as well as assurance that reasonable means cannot be used to deduce an identification. Insurers may also wish to consider the pros and cons of first-party data versus second- or third-party data.

Robust data discovery, classification, and governance are key. Privacy management solutions may incorporate consent management, data protection impact assessments (a requirement under GDPR), data subject access request fulfillment, and legislation-specific compliance modules.

The regulatory burden involved with data privacy compliance will only grow; insurers and solution providers need to plan for this. Third-party data providers should take the following actions immediately actions:

- Register with the California Office of the Attorney General
- Stand up personal data privacy governance frameworks, including data sourcing, data dictionaries, and consent journeys
- Firm up business processes related to consumer requests for personal data

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 insurance advisory clients at aite-novarica.com. Research reports can also be purchased individually.

EXECUTIVE BRIEFS & REPORTS

YOUNG AGENT INSIGHTS: DCM, ONBOARDING, AND AMS CONVERSION

INSURETECH STARTUP INDEX 300

EDUCATION: THE ACHILLES' HEEL OF HSA ADOPTION

CYBER RISK SCORING AND MODELING: OVERVIEW AND PROMINENT PROVIDERS

BUSINESS TECHNOLOGY TRENDS

WORKERS' COMPENSATION

PERSONAL LINES

RESEARCH COUNCIL STUDIES

LIFE/ANNUITY/BENEFITS INSURER IT BUDGETS AND PROJECTS 2022

PROPERTY/CASUALTY INSURER IT BUDGETS AND PROJECTS 2022

NOVARICA MARKET NAVIGATORS

LIFE INSURANCE, ANNUITY, BENEFITS POLICY ADMINISTRATION SYSTEMS: MARKET OVERVIEW

PROPERTY/CASUALTY BILLING SYSTEMS

BLOG SPOTLIGHT

DIGITAL AND TALENT TOP PRIORITIES FOR 2022

BY HARRY HUBERTY

Insurer budgets and priorities for 2022 look like those of prior years, but they also reflect adjustments to competitive and market changes the pandemic has brought. In most cases, insurers are adapting by placing additional focus on things that have been priorities for a long time.

MAKING THE MOST OF A MENTORSHIP

BY DEB ZAWISZA

Mentorships can yield benefits on both sides: having others advocate for your career, opportunities for reflection and growth, and hearing perspectives from people with different life experiences. It's also rewarding to be involved in a relationship that sets aside time for growth and development rather than day-to-day tasks at work or around the house.

THOU SHALT NOT RETAIN FOREVER

BY JOHN KEDDY

The topic of employee work location has moved from a tactical conversation involving human resources and facilities to a strategic conversation about winning the war for talent. The evolution of this conversation reveals elements of current corporate culture, capital investment, and future strategy. As we start 2022, these forces appear only to be intensifying.

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

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Aite Novarica

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