

## White Paper

# Breaking the Deadlock and Accelerating Digital Transformation in Insurance

Sponsored by: Cognizant

Sabitha Majukumar

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## EXECUTIVE SUMMARY

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Insurance organizations are investing in modern technologies to tackle the many challenges of the digital economy, yet most of them are stuck in what IDC calls a digital deadlock. According to IDC's 2019 *U.S. Vertical Survey* that covered 176 life and nonlife insurers, close to 85% of respondents are in the early and middle stages of digital transformation (DX). Reasons range from well-known problems such as legacy landscape and manual processes to realities such as the lack of an enterprisewide DX strategy, closed culture, and shortage of digital skills. In a world where digital disruption is driving many traditional businesses into oblivion, insurers cannot simply wait for their transformation stories to slowly unfold.

The COVID-19 situation that is currently rattling the world has brought a new angle to the DX story in insurance. As with governments and healthcare institutions across the world, how insurers respond to customer needs in this crisis depends greatly on their operational and technology preparedness. Hence the slow DX progress over the years is particularly hurting many insurance organizations now. Several inefficiencies with respect to technology, systems, and processes are being exposed as these carriers handle huge volumes of customer inquiries and claims.

A significant number of organizations struggle, but on a positive note, there are lessons from digitally determined organizations that follow accelerated pathways to transform their businesses. These disruptor organizations make their way despite barriers to create sustainable digital business processes. They equip themselves to deliver positive customer experiences (CXs), are significantly better at product and service innovation, and monetize data to generate new revenue streams. These insurers embrace a unified digital strategy and use case-driven road map. They invest in digital platforms to address current problems as well as futureproofing in an evolving digital economy and embrace software as a service (SaaS) that enable quick wins. They understand that speed, scale, and agility are paramount to sustain and thrive as digital advancements disrupt the marketplace or to face unprecedented scenarios such as COVID-19.

IDC observes that many innovative businesses are considering SaaS offerings keenly as these solutions help avoid the need for large on-premises solutions, complex integration requirements, or expensive and time-consuming customizations. Industry-specific or vertical SaaS offerings can be a feasible workaround when an insurance carrier wants to bring a specific service (that aligns with today's customer expectations) to the market quickly with greater cost efficiency, usability, and flexibility. These solutions can potentially address dynamic usage requirements (e.g., increased call volumes or exponential rise in service requests) in specific circumstances such as global pandemics and do so cost effectively. Vertical SaaS providers invest in industry-specific know-how, and they offer the data and tools that are not always available from

horizontal SaaS applications. Today, vertical SaaS providers are not just offering customizable features and add-ons to standard packages, they embed built-in data models that deliver targeted intelligence, industry context, and actionable analytics and guidance to users.

This IDC White Paper throws the spotlight on accelerated pathways to DX that can help insurers break the digital deadlock and make progress. As IDC's *COVID-19 Impact on the Insurance Industry: Matters of Technology, Transparency, and Trust* (IDC #EUR146156520, March 2020) observes, as and when the COVID-19 scenario eases, a big priority for insurers will be to accelerate their DX efforts in collaboration with the right technology partners – efforts that will equip them with the platform, technology, and skills to face future crises of such unprecedented magnitude. This paper also analyzes how business technology solutions providers such as Cognizant are taking the experience from their service innovation to build a portfolio of insurance SaaS offerings in response to their clients' needs across business functions such as quote, underwriting, policy admin, and claims.

## THE DIGITAL DEADLOCK IN INSURANCE

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Digitization is disrupting the world in a way that forces even the most traditional industries such as insurance to respond. Technologies such as the Internet of Things (IoT), artificial intelligence (AI), blockchain, and connected/autonomous mobility offer better risk management capabilities and, in the process, challenge the very relevance of traditional insurance coverage. Globally, insurance carriers realize that they need to choose between acting now or suffering the fate of the many retailers, travel/hospitality providers, and media houses that were swept away in the whirlwind of digital disruption. Organizations that sense the urgency are investing in digital transformation to help deal with the mounting demand for customer-centric products and services, the evolving risk and regulatory landscape in an increasingly connected world, and the nontraditional and digital-savvy competition.

A DX journey, however, is not a smooth ride. It involves an overhaul of not just technology but processes and people too. It demands renewed ways of thinking and a different cultural approach. Although insurance organizations are undertaking DX, many remain stuck in a digital deadlock. While 85% of insurers are in the early and middle stages of transformation, only 2% of insurers have reached the optimized stages, according to IDC's 2019 *U.S. Vertical Survey*. Such progressive organizations use new digital technologies and business models to affect customers and markets and utilize feedback as a constant input to business innovation.

So what exactly are the reasons for this digital deadlock in a majority of insurance organizations?

Legacy landscape/disparate data sources, too many manual processes, internal and external collaboration shortcomings, subpar enterprisewide strategy and execution, and a lack of talent adept in digital technologies make transformation initiatives extremely challenging. This is particularly evident in large incumbent firms. While the reasons cited here are not unique to the insurance sector, the traditional attitude of the insurance industry marked by a resistance to embrace change and innovation as well as its "closed culture" reputation make it more difficult for the insurance industry to overcome these barriers. However, it is becoming increasingly clear that insurers cannot afford to wait in anticipation of an inevitable transformation, even though the process itself is slow. Insurers face a sense of urgency to build and deploy digital capabilities that drive innovation and accelerate DX. The coronavirus pandemic, in fact, is furthering this need. It is critical that insurers make progress despite current and emerging obstacles. Success in DX will separate insurers that will prosper over the next decade from those that will vanish due to inaction. In a challenging and uncertain marketplace, speed and agility are vital to survive and eventually thrive.

## BREAKING THE DEADLOCK AND ACCELERATING DIGITAL TRANSFORMATION

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IDC's 2019 *U.S. Vertical Survey* found that excellence in customer engagements and products and services are the top DX priorities of insurers. In the digital era, this is an aspiration that attracts IT investments in insurance driven globally by the rise in customer expectations for best-in-class product and service experiences. Investments toward customer experience enhancements are not bringing desired results nor are these initiatives executed at the desired pace. There seems to be a disconnect between the larger CX aspirations and the actual execution of the initiatives. This is not to say that all carriers get it wrong, but the reality is there are not many insurers adept in the use of new digital technologies or exploring innovative business models to affect CX positively and disrupt markets significantly.

The adverse impact of years of slow DX progress is particularly hurting insurance organizations now as they try to respond to the COVID-19 crisis. As with nations, how insurers respond to customer needs in this crisis depends greatly on their operational and technology preparedness. The following is an example of customer communication from a leading insurer:

As the latest news and advice around coronavirus continues to evolve quickly, we're working hard to stay a step ahead and offer you the best service we can. We've added a section on our site for our latest coronavirus information. We've also put several plans in place to try and keep disruption to a minimum. Even so, we're expecting times when we'll have fewer staff available to help you. So, we may take longer than usual to answer phone calls or reply to emails about your policy.

Several inefficiencies such as this with respect to technology, systems, and processes may be exposed while insurers handle huge volumes of customer inquiries and claims. Consequently, customer trust and confidence may hit an all-time low following this outbreak.

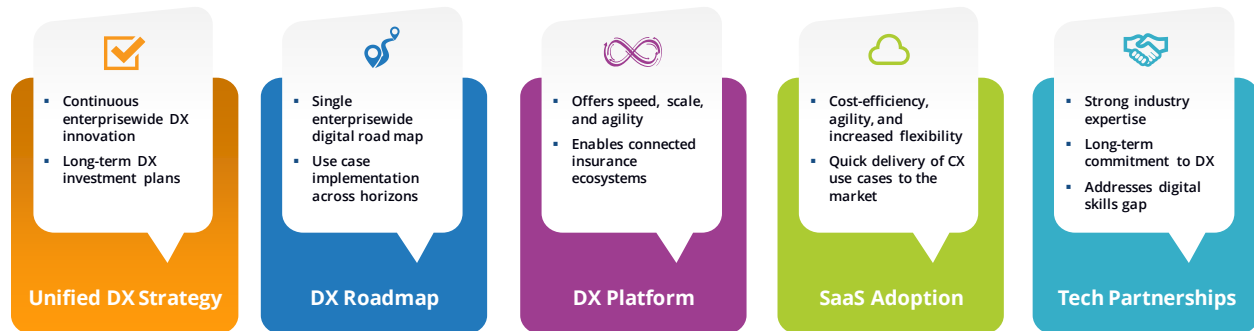
The good news is that there are lessons from digitally determined organizations (i.e., the carriers that represent the advanced or optimized stages of digital maturity) that have followed accelerated pathways to transform their businesses. These digital transformer and disruptor organizations have been working their way through the barriers to realize the digital mission of contextual and value-centric insurance. According to *IDC's Worldwide Digital Transformation Use Case Taxonomy, 2019: Insurance* (IDC #US44600319, June 2019), contextual and value-centric insurance is about creating simple, transparent, and unique experiences that are rooted in the principles of proactive risk management and secure, seamless, and contextual engagements across the customer journey.

The preparedness of digitally determined organizations enables them to offer proactive and empathetic customer engagement and manage the crisis better and retain customers when the tide turns. Their capabilities include proactive communication of coverage applicability and health and safety advice, round-the-clock availability across human and virtual channels, predictive claims capabilities and automated payouts powered by data and analytics, frictionless claims through smart systems and processes, and an agile, smart workforce enabled by technology. They may also rely on digital platforms that enable diverse stakeholders (e.g., insurers, emergency services, hospitals, employers, mental health consultants) to work together and help customers in their desperate times.

Figure 1 illustrates some of the pathways that digitally determined organizations pursue to make the most out of their investments and help them cope well in unforeseen crisis situations.

**FIGURE 1**

## Accelerated Pathways to Digital Transformation in Insurance



Source: IDC, 2020

### Unified DX Strategy

Digitally determined organizations have continuous enterprisewide DX innovation in place with respect to both operations and customer experiences. They have a longer-term investment plan and the enterprise strategy is to use DX to transform markets and customers by creating new business models and product/service experiences. This plan aims to integrate DX initiatives and programs into the existing culture – inside and out – including organizational changes, new digital roles, funding, talent management, operations, and information requirements – to optimize their ability to improve in DX. The plan also includes steps to incorporate next-generation changes/threats and developments in DX.

Digitally distraught organizations, on the other hand, have DX initiatives that are tactical and disconnected from enterprise strategy. Or they have initiatives at a line-of-business level with some connection to the enterprise strategy. In cases where the DX initiatives are tied to the enterprisewide strategy, it is with a short-term focus. IDC's 2019 *Digital Transformation (DX) Executive Sentiment Survey* that included 117 insurance organizations revealed that around 65% of carriers take a short-term approach to their DX efforts. It is very difficult to accomplish a meaningful transformation when efforts are divided.

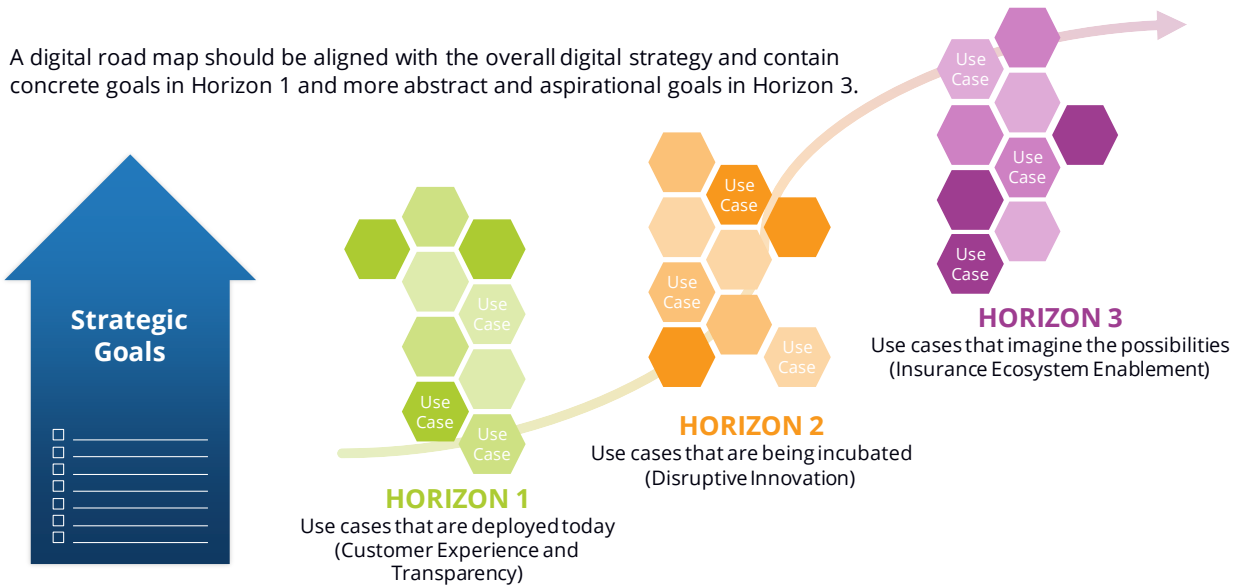
### DX Road Maps

IDC's 2019 *Digital Transformation (DX) Executive Sentiment Survey* found that 75% of digitally distraught insurance organizations do not have a digital road map in place. To break the DX deadlock, insurers need to formulate a digital road map as there is a direct correlation between having an integrated digital road map and digital maturity. IDC's research shows that digitally determined organizations that have a single enterprisewide digital road map that aligns the entire organization are more likely to deliver successful digital transformation. IDC recommends that insurance organizations organize their DX journey by strategic priority. Priorities such as omni-experience engagement, usage and value-oriented offerings, frictionless insurance, and building cognitive competencies should be divided into three time horizons made up of modular use cases. Horizon 1 includes the use cases that should be deployed in the short term, with a focus on increasing customer experience and transparency. Horizon 2 is where disruptive

innovation takes place, and it includes use cases that will be deployed in the midterm. Horizon 3 needs to reflect the transformation of the business model toward an ecosystem-enabled revenue model involving diverse traditional and nontraditional stakeholders (see Figure 2).

**FIGURE 2**

**Digital Road Map Spanning Three Horizons**



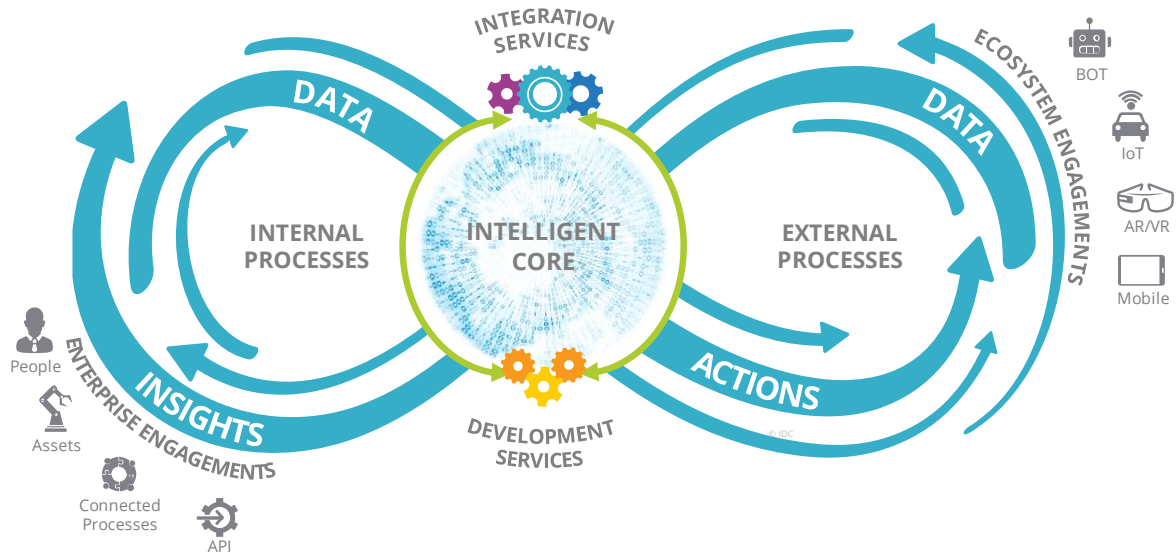
Source: IDC, 2020

**DX Platform**

According to *Digital Transformation Requires a New Way of Thinking: DX Use Cases, SaaS, Intelligent ERP and Associated Technologies, and Innovation at Scale* (IDC #US45042219, May 2019), enabling sustainable repeatable processes requires a DX platform for speed, scale, and agility. The DX platform has an intelligent core at its center as depicted in Figure 3, which is based on data management, artificial intelligence, and machine learning (ML). The platform will rely on agile application architectures on platform as a service (PaaS) using microservices and containers. Cloud-based application programming interface (API) strategies orchestrate the exchange of data across the ecosystem. New CX technologies that fully support customer and ecosystem-facing business models are also key elements of the platform. The DX platform is an area a business can focus on as it works with technology partners that are building out these platforms.

FIGURE 3

## DX Platform



Source: IDC, 2020

## Adoption of SaaS

Breaking the legacy barrier to enable streamlined processes and speed to market is not an easy task for many incumbents. Like many other businesses, insurers are seriously considering SaaS particularly as it may avoid the need for large on-premises solutions, complex integration requirements, or expensive and time-consuming customizations. SaaS solutions can be a feasible workaround when a carrier wants to bring a specific service to the market quickly (e.g., AI-enabled customer onboarding with minimal data inputs in response to rising customer frustration with the existing quote applications) or to tackle imminent competition from a new insurtech. Today, technologies such as AI, big data and analytics, IoT, AR/VR, and blockchain add to the value proposition of SaaS applications with their ability to provision increased functionality.

In *IDC FutureScape: Worldwide Cloud 2020 Predictions* (IDC #US44640719, October 2019), IDC predicts that 70% of all enterprises will reduce the cost and complexity of customizing enterprise applications by investing in industry-specific SaaS applications and platforms by 2024. According to this research, organizations are now choosing vertical SaaS solutions nearly twice as often as horizontal applications, largely because such applications are built to address the unique requirements of their specific industry. As businesses engage in DX, vertical SaaS applications focused on specific areas such as services for property risk assessment, claims damage assessment, and the like offer greater cost efficiency, usability, and increased flexibility for customers. These solutions can potentially address dynamic usage requirements during certain situations (e.g., a global pandemic potentially resulting in low volumes of auto insurance claims as nations impose complete lockdowns or high volumes of health or travel insurance claims) and do so cost effectively. Since vertical SaaS providers invest in industry-specific know-how, they offer the data and tools that are not available from horizontal SaaS companies. Vertical SaaS providers are not just offering customizable features and add-ons to

standard packages, they embed built-in data models that deliver targeted intelligence, industry context, and actionable analytics and guidance to users.

Innovative technology providers bring industry-specific use cases to the market that can be implemented on-premises or as cloud-enabled deployments. With time, these applications are enhanced with further features that will help insurers explore the technology in a collaborative arrangement and scale up. Innovation at scale is critical in the digital world and any application that demands little to no customization will help insurers with a hassle-free approach to realize specific strategic CX objectives in their road map. AI-centric use cases are a good example where over time, the machines learn based on data feeds and become smarter and sharper in decision making, adding immense value to an insurance underwriting or actuarial team.

## Technology Partnerships

Once the use cases for each horizon in the digital road map are identified, digital-savvy insurers accelerate their DX journey with the help of right technology partnerships. According to *IDC MarketScape: Worldwide Digital Transformation Service Providers for Insurance 2018-2019 Vendor Assessment* (IDC #US43017518, December 2018), insurers should look for the following when selecting vendors:

- Core strengths of individual vendors and their areas of improvement, whether that be industry knowledge, digital technology expertise, or attitude to innovation
- The ability to be a committed, long-term partner to transform business
- The ability to help address the gap in digital skills in the insurance organization
- A commitment to devote experts to specific technologies for DX on a long-term basis
- An openness to offer innovative outcome-based delivery options
- The ability to help build or lead a connected insurance ecosystem
- The ability to offer phased horizon-based delivery that breaks DX complexity down through meaningful functional chunks or use cases

## CONSIDERING COGNIZANT SAAS PRODUCTS FOR THE INSURANCE INDUSTRY

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Cognizant has been a leading IT and DX services provider for the insurance industry for many years. The sector that includes both life and property and casualty (P&C) organizations has been an area of strength for Cognizant. The company has deep experience and expertise in managing, leveraging, and deploying a spectrum of digital technologies for its vast insurance clientele. More recently, the company is applying experience from its service innovation to build a portfolio of insurance SaaS offerings that focuses on connected ecosystems, digital imagery and drones, and big data and machine learning-driven intelligent analytics. The company is developing SaaS capabilities in response to the needs of its insurance clients across business functions such as quote, underwriting, policy admin, and claims. The aim is to position holistic solutions for specific problems. For example, the Risk Profile Gateway for life insurance provides access to important insurance applicant health data in a summary view that helps underwriters identify risks with insight into known medical conditions, past test results, medical procedures, and medications efficiently.

The SaaS offerings that are hosted on AWS are built through Cognizant's internal Accelerator program that finds and fuels ideas that solve business problems and create new opportunities. Beyond business case review and investment, Accelerator provides required support for software development



and maintenance. The group is staffed with developers, designers, and product managers and other capabilities found in typical software companies. The different SaaS offerings for the insurance industry aim to help customers apply advanced technologies such as AI and ML to address their critical business challenges in a quick and cost-effective manner. Cognizant intends to bring only products with relevance and business context to the market by emphasizing its ability to solve pressing industry problems. This includes tried and tested solutions at current client engagements that Cognizant aims to offer to the broader industry as SaaS products whenever feasible.

## **Cognizant Insurance SaaS Products**

A few of the Cognizant SaaS products for the insurance industry are discussed in the sections that follow.

### ***Risk Profile Gateway***

Risk Profile Gateway is a self-service platform for life insurance that provides access to important insurance applicant health data. By providing a summary view, the platform helps underwriters identify risks with insight into known medical conditions, past test results, medical procedures, and medications. The solution offers an automated, software-driven approach to surface issues visually, integrate with existing rules engines to interpret policy, and format the record display accordingly, thus streamlining underwriter review. Cognizant plans to expand the offering further by integrating underwriting manuals and guidance about risk selection for inline decision making. A new use case under consideration involves retro studies to convert massive amounts of unstructured data into high-quality data repositories to drive predictive underwriting, better product design, and accurate risk assessment.

### ***Open Claims Audit***

This SaaS offering acts as a "check engine" light for P&C claims adjustment by alerting claims handlers of potential problems or missed steps. It is an analytics solution that automatically audits every open claim in near real time. It is built to alert claim managers to potential problems related to the claim and adjuster performance before a claim is closed.

### ***Robots as a Service***

This offering enables automation of tasks for benefit claims, new business, underwriting, policy admin, and renewal processing across the systems that insurance organizations use every day such as Sedgwick viaOne, Guidewire, XactAnalysis, Duck Creek, and other industry platforms. This service offers an accelerated path to automating labor-intensive, time-consuming, and non-value-added business processes while also aiming to minimize risk and control costs. As part of the offering, a team of automation specialists undertake documentation, development, deployment, and daily monitoring of the robotic workforce from start to finish in collaboration with subject matter experts within insurance organizations.

### ***Insurance Intake Automation***

This offering enables P&C insurers to reduce the manual effort in transcribing information from both standard industry forms and custom documents by extracting required data using OCR and NLP technologies. The data recommendations are then presented to the data analyst for review. By extracting key information for a variety of use cases, this SaaS solution enables shared service data analysts to shift their process from "transcribe" to "review," allowing for increased speed and accuracy.



## Workers' Compensation Care Analysis

Workers' Compensation Care Analysis allows insurers to establish an anticipated treatment plan for workers compensation cases as part of an overall cost containment strategy. The platform flags treatments that deviate from these plans, so insurers can engage in a professional dialogue with providers before services are rendered rather than after a claim is submitted. By combining the power of artificial intelligence with machine learning, it changes the paradigm in the cost containment of workers' compensation cases by shifting the discussion with providers from billing to medical treatment.

## CHALLENGES/OPPORTUNITIES

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Many insurers prefer digital boutique companies or insurtechs when it comes to innovative CX/DX solutions that offer quick wins in the transformation journey. They believe that these small firms are nimble, digital savvy, and agile in their operations and bring in a fresh outlook. Insurers also feel in better control when they offer funding to support/promote insurtechs. To counteract these sentiments, Cognizant could highlight its deep experience and industry expertise and its ability to commit long term to clients' DX efforts and scale compared with insurtechs. It could also highlight the independence its Accelerator program enjoys unlike insurtechs that depend on venture capital funding.

*IDC MarketScape: Worldwide Digital Transformation Service Providers for Insurance 2018-2019 Vendor Assessment* (IDC #US43017518, December 2018) observes that to transition from a traditional global services company to a pure-play digital player, Cognizant should look to offer a range of pricing and delivery options that will help clients reduce risks and maximize their DX investments. When its SaaS offerings were first launched, a minimum buy-in requirement with respect to usage was piloted, but pure transaction-based pricing was introduced soon after based on customer feedback. Along with the functionality, the company's ability to offer flexible pricing and delivery options should promote wider acceptance of its solutions in the market.

Another consideration for carriers is around APIs that enable communication between insurance core systems and the SaaS solutions. In a scenario where Cognizant is already maintaining an insurer's in-house core systems, it is expected that Cognizant's dedicated development team (within Accelerator) can easily build the required APIs. This may help expedite SaaS adoption for certain carrier organizations. In a second scenario where a carrier relies on commercial off-the-shelf products for its core functions such as policy admin or claims, APIs that address specific software products are required. Cognizant has strong partnerships with leading, core system product vendors such as Guidewire and Duck Creek and has prebuilt APIs that integrate with its SaaS offerings. This again can help expedite the adoption process and may work in favor of the carriers. Cognizant hasn't yet tested a third or fourth scenario where in-house core systems are managed by a different IT services provider or where a carrier relies on a commercial off-the-shelf product provider that doesn't already have a partnership with Cognizant, respectively.

It is still in the early days in the market for the SaaS offerings in the insurance industry, so Cognizant needs to closely watch the service-level agreements with respect to individual SaaS solutions. For example, consider Risk Profile Gateway, which promises the delivery of an integrated risk summary by obtaining information from different core systems and external databases. A consolidated view can be of great help but keeping up with the response times is critical to sustain the long-term interest and trust of the users. In the digital era, speed is everything; so the solution should keep pace with both the evolving expectations of users and the number of records the AI-backed solution needs to scan through or the number of systems it needs to access to build accurate risk profiles.

Many of the challenges described previously are understandable as Cognizant is historically an IT global services company but the effort to broaden into the products domain to address the insurance industry's needs is commendable as are its efforts to align with the new digital ways of working. One example of this is the company's openness to ideas for innovative digital products, brought to its attention by clients, that can be developed into a SaaS offering. This can alleviate certain concerns insurers have around funding digital projects involving complex technologies and considerable risks. Cofunding models have the potential for future revenue sharing and can be a win-win for both parties involved in the long run as connected insurance ecosystems evolve.

## RECOMMENDATIONS FOR INSURERS

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- **DX strategy and road map.** Identify your baseline state and define what it will take to evolve to the future digital state with an enterprisewide strategy. Break down DX complexity through functional chunks or use cases and implement these with a clear horizon-driven digital road map (with use cases prioritized for each horizon).
- **Accelerated DX.** To break the digital deadlock, actively explore reliable and agile partnerships and technology enablers. Embrace smart, cognitive offerings to innovate, accelerate, and scale your DX journeys. This will help meet your strategic objectives and avoid risking your very relevance in the digital era. It will also prepare you to handle crisis situations such as the COVID-19 outbreak.
- **DX platform.** Invest in a digital platform that provides the necessary capabilities to organize and process data/information. Digitally determined organizations invest in digital platforms to establish better customer experiences, improve knowledge worker productivity, and create operational adaptability.
- **SaaS adoption.** Build and deploy digital capabilities that help pick the low-hanging fruits of innovation opportunities and accelerate DX while also tackling the current and emerging obstacles in the path – explore industry-specific SaaS offerings that can help transform customer experience or employee experience.
- **Technology partnerships.** Continue to invest in DX initiatives that align with your strategic priorities, but partner with technology vendors that can commit to and own up achievement of desired business outcomes for these initiatives. For this, the partner should have strong understanding of the industry and the requirements of a fast-evolving marketplace.

## About IDC

International Data Corporation (IDC) is the premier global provider of market intelligence, advisory services, and events for the information technology, telecommunications and consumer technology markets. IDC helps IT professionals, business executives, and the investment community make fact-based decisions on technology purchases and business strategy. More than 1,100 IDC analysts provide global, regional, and local expertise on technology and industry opportunities and trends in over 110 countries worldwide. For 50 years, IDC has provided strategic insights to help our clients achieve their key business objectives. IDC is a subsidiary of IDG, the world's leading technology media, research, and events company.

## Global Headquarters

5 Speen Street  
Framingham, MA 01701  
USA  
508.872.8200  
Twitter: @IDC  
idc-community.com  
www.idc.com

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