Industrialization of business operations in the insurance industry

A volatile economic and investment environment, changing customer needs, and increasing regulatory scrutiny continue to push insurance companies to find new ways to improve revenue, capital utilization, risk profile, and ultimately profitability. As claims and expenses rise at a faster rate than premiums, and investment yields (and, often, spreads) decrease, insurers also cut costs. With the transformation of support operations across the industry, the traditional model of maintaining multiple or non-standardized back offices to support different product lines and business units is giving way to more “industrialized” target operating models.
One of the key enablers for firms pursuing their target operating models is Global Business Services (GBS). GBS, the evolution of shared services with a larger global footprint serving multiple functions, helps streamline processes by leveraging a unified—although not always centralized—operating entity that collaborates effectively with the rest of the function. GBS serves as the cornerstone for any advanced target operating model and can help firms orchestrate different sourcing structures - including captive, outsourced, or hybrid models. Decoupling business functions (combined with the advanced use of metrics, data-driven process management, specialized HR/organizational design, and effective IT) industrializes operations across the process chain and can improve scalability, lower costs, increase control, and provide a better-quality experience for the end client. If GBS is done well, organizations can enable better decisions, pursue growth, and adapt to market contractions more nimbly. This paper describes a scientific, granular approach enhanced with industry-specific experiences to adopt the best-fit target operating model for the insurance industry.

Reassessing existing operating models to combat persistent challenges to the industry

Today, the insurance industry faces many challenges

- **Increased regulatory scrutiny**: With the advent of Solvency II, insurers must have enhanced reporting capabilities. A recent industry survey on the U.S. insurance industry’s Enterprise Risk Management and Own Risk and Solvency Assessment readiness indicates that most companies are not ready for this change and must invest significantly in resources and make organizational changes to comply with this regulation.

- **Emerging U.S. and international accounting standards** may adversely affect insurers’ business operations. Given that the operations of insurers are distributed in individual profit centers, it can be difficult to cost-effectively maintain uniform accounting standards and comply with new standards across various product lines and business units.

- **Sustained low interest rates** have rendered fixed life insurance products unattractive and pressure underwriting results. The volatile economic environment has made consumers hesitant to buy variable products in life insurance. Insurers compete in a market where average household expenditures on life insurance have plunged 50% over the past decade.

To respond to these challenges, insurers are reconsidering their business strategy, transforming product lines to adapt to the persistently volatile economic scenario, and increasingly focusing on risk management to comply with evolving regulatory changes. Insurers must adopt a more meticulous, repeated, and automated approach to managing risk and collect data in line with regulations. However, doing so requires...
transforming the existing operating model to be more sustainable and industrialized.

In many cases, operating models deliver work for individual business units in silos, create different processes and data for similar work, and gradually build multiple redundant sub-functions as companies grow. These multiple duplicative functions not only add to the costs but also inhibit the speed with which the company can comply with new regulations. For example, preparing customized reporting solutions for every business unit and performing manual interventions to deliver the required reports often turns out to be inefficient and error-prone.

**Industrialization: A possible key to business operations’ agility and resilience**

GBS operating models can help insurance firms become more agile by streamlining the regulatory reporting process, along with finance and accounting, customer care, and other functions.

Industrialized operations create resilience to changing regulatory conditions by ensuring, for example, a standardized, scalable approach to documentation and exceptions management. Industrialized operations also enable faster innovation in volatile marketplaces. For example, increasing the size of a large operation by 20% (or strengthening the business infrastructure in a new country) typically takes a year or two, but industrialized operations often achieve this in half the time. When the scale of the business process services is increased by a factor of 10, the GBS model delivers a 50% savings in cost per transaction. A leaner, more predictable cost structure also enables resilience and consistent global application of best practices, thus improving processes that are critical to the quality of the final business outcome.

For the most part, the insurance industry has been slow in industrializing operations, due to a perceived notion that individual product lines and business units had unique support and technology needs. Moreover, organizations were concerned that moving operations support away from business units would reduce the local product/market knowledge, slowing down the decision-making process and creating a negative impact on customers. Thus, as other industries embraced industrialization and moved toward advanced versions of a shared services model, insurance

Figure 1. The insurance industry has been reluctant to embrace GBS when compared to other industries; however, industry leaders are forging ahead as the need to reduce costs has escalated.
companies kept working in silos. Only in the early 2000s did a few insurers start consolidating their non-core operations under unified entities, more than a decade after industries such as banking.

As depicted in Figure 2, Genpact research reveals that significant industrialization potential exists in the insurance industry.

Last year, the Property and Casualty (P&C) Insurance industry alone spent more than US$10 billion on operations that could have benefited from a more industrialized operating model. More than half of this amount was for “core operations,” covering a broad set of activities such as issuing policies and underwriting, servicing policies, managing claims, and complying with regulations. Another 13% of this total was spent on standard finance and accounting (F&A) functions. Genpact estimates that over the next five years, the total amount spent on activities that could potentially be used for advanced operating models will increase by another $1.4 billion. Similarly, the potential for industrialization in life insurance industry is expected to grow from $9 billion to $10 billion by 2017.

To take advantage of this opportunity, firms must evaluate all core and non-core activities. Experience dictates that identifying processes that would benefit from a shared services center can be a struggle for firms without experience in shared services; however, when the right processes are transitioned, the benefits can be substantial. For example, a recent strategic operation redesign helped a Genpact client to achieve annual cost savings of $20 million. The client realized a further $5 million from process improvements the first year. Moreover, the new organization provides scalability and flexibility to serve the needs of the business in times of volatility.

Research shows that these opportunities are not few and far between across the industry. On analyzing dozens of offshore captive operating centers of 19 leading insurance companies, Genpact saw a significant opportunity in building on the shared services model. As shown in Figure 3, of the leading insurance companies that have adopted industrialization, only half have moved their F&A function to in-house captive centers, as opposed to nearly 60% of the banking companies. In addition, shared services models can provide opportunities to increase analytics for fraud, risk, and claims expenses and other industry-specific functions.

Insurers can increase the efficiency of their shared service centers by adding more business processes to the existing ones. Apart from focusing on routine, repetitive, back-office services and routine low-touch front-office services, insurance companies should apply the lessons from other industries, and move more high-touch consultative services to the industrialized GBS model.
Several leading insurance companies have started incorporating these non-commodity positions of strategic importance with customer contact, including high-touch services such as fraud claim analytics, claims processing, regulatory compliance and reporting, underwriting, and policy administration.

Analysis also shows that insurers that have industrialized operations, on an average, manage two business processes in a single shared service center, while some best-in-class centers manage four to five business processes under a single roof. Thus, market leaders have shown the way for others when merging multiple business processes under a single shared service entity. Figure 5 depicts how Genpact helped a large P&C insurer industrialize certain parts of its high-touch processes. In order for the organization to achieve maximum benefits from the shared services approach, Genpact placed a functional leader from each function at the business’s onshore location, along with a set number of support resources. This allows the business to transition expertise to the support resources and still leverage standardization and cost-effectiveness benefits. A joint program management office has also been set up to manage and audit the day-to-day execution of the processes at the shared services location.

**Figure 4.** GBS is expanding in scope to include non-commoditized, high-touch processes.

**Figure 5.** A suggested operating model with high-touch activities split between the insurer and the shared services operating entity. Many functions are in scope unless they require specific business judgment, policy setting, or strategic decision making.
Implementation of the GBS model in the insurance industry

Once all of the business processes that can be moved to an industrialized GBS model have been identified, a phased implementation should be adopted. The GBS lifecycle typically follows three phases: setup, growth, and maturity. Insurance companies must understand that full realization of benefits using the Global Business Services model is achieved when it moves beyond the first two phases, which has historically taken between five and 10 years. However, given the maturity of the model, companies that transform in the immediate future could see benefits more quickly.

Forward-looking organizations have successfully shortened the path to ROI with a well-defined target operating model, strategy, and execution roadmap. Scientific business operations and process improvement frameworks such as Genpact’s Smart Enterprise Processes (SEP<sup>SM</sup>) help organizations measure and improve business processes—in turn, more rapidly enabling world-class levels of performance.

In one case, a specialty insurer experienced lack of standardization, gaps in systems and processes, and lack of responsiveness to changing regulations owing to fast-paced growth, years of acquisition, and geographic expansion. They engaged Genpact to enhance the underwriting scalability and cost-effectiveness of their business. Genpact worked with the client to identify non-core processes and split the organization into two separate operating entities. The insurer focused on the core processes related to underwriting, and Genpact handled all other processes, including complex functions such as risk modeling, claims processing, and analytical reporting. The entire transformation journey was divided into four phases to create effective change management. As each phase is completed, the insurer is expected to observe increasing returns on investment, freeing up more capital to grow the business. After the project is complete, the expense ratio is expected to be reduced by 3%. Finally, through the use of Smart Enterprise Processes (SEP<sup>SM</sup>), this organization is likely to progress comparatively fast through the maturity lifecycle.

Toward a viable target operating model

With scientific understanding of business processes (such as SEP<sup>SM</sup>), organizations correctly estimate the end-to-end business impact of target operating model choices, thus facilitating effective design earlier in the transformation process. Through work with clients around the world, Genpact has observed a significant variance in the key performance indicators of companies adopting GBS. This variability suggests that although broad-brush strategies and comparables have a place in this process, a thorough analysis of the following four dimensions is critical to selecting the right target operating or delivery model.

Empirical experience and a significant level of granularity help craft the right strategy for a target operating model. Genpact recommends a structured approach:

- **Review the as-is state and rationale.** Understand the current state of performance, identify candidates for improvement, and review the process and sub-process practices.

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**Figure 6.** The full benefits of GBS are realized after the foundational stages are completed.

**Figure 7.** Actionable choices patterns emerge by triangulating four themes.
• **Identify top improvement opportunities.** Use best-practice metrics and frameworks to benchmark key areas, identify top areas for improvement, assess the feasibility and risk of options, and conduct a preliminary analysis of benefits such as cost, efficiency, or effectiveness.

• **Identify delivery alternatives.** Assess options for consolidating processes into internal global shared operations, externally sourced operations, or a combination.

• **Determine change implications.** Outline both financial and risk-related implications for each location and structuring option (e.g., various types of risk).

• **If needed to help executive decision making, build a business case for each alternative.** Compile a high-level business case that encompasses process improvement, organizational structuring options, location choices, and change implications.

• **Develop a detailed roll-out plan.** Develop a roll-out plan to reach the targeted operating model by process and by location.

• **Build the final business case.** Identify emerging options for each process and develop financial and implementation plans.

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**Conclusion**

Business agility in times of unprecedented volatility requires a more strategic role for business operations. Going forward, as markets remain volatile and consumers’ product preferences evolve, insurers should reevaluate not only their existing product lines but also their operating models. In addition, regulatory compliances will create additional—and sometimes difficult to predict—burdens. To remain viable, insurance companies must invest in new operating models that industrialize their operations.

Although this journey is not simple, organizations looking to redefine their operating models can use a significant amount of pre-existing, specialized knowledge to navigate the continuum of design and implementation choices. Indeed, while insurance companies’ operations present challenges unique to the industry, the companies benefit from the knowledge accumulated in industries for which broader, deeper transformation began earlier. Combining this experience with a clear understanding of an organization’s strategic needs, capabilities, and industry context can help craft the right strategy for a target operating model.

*Contact Genpact’s specialists to learn about the ways to define a future path or identify custom solutions to optimize an existing strategy.*
About Genpact

Genpact Limited (NYSE: G) is a global leader in designing, transforming and running business processes and operations, including those that are complex and industry-specific. Our mission is to help clients become more competitive by making their enterprises more intelligent through becoming more adaptive, innovative, globally effective and connected to their own clients. Genpact stands for Generating Impact – visible in tighter cost management as well as better management of risk, regulations and growth for hundreds of long-term clients including more than 100 of the Fortune Global 500. Our approach is distinctive – we offer an unbiased, agile combination of smarter processes, crystallized in our Smart Enterprise Processes (SEP™) proprietary framework, along with analytics and technology, which limits upfront investments and enhances future adaptability. We have global critical mass – over 65,000 employees in 25 countries with key management and corporate offices in New York City – while remaining flexible and collaborative, and a management team that drives client partnerships personally. Our history is unique – behind our single-minded passion for process and operational excellence is the Lean and Six Sigma heritage of a former General Electric division that has served GE businesses for more than 16 years.

For more information, contact, insurance.solutions@genpact.com and visit, www.genpact.com/home/industries/insurance

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