

# Digital Transformation in Insurance

## Through BPM Adoption

**A White Paper**

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## Summary

Digitization is transforming the way insurers, reinsurers and brokers do business, impacting the entire customer engagement value chain. A rapidly evolving economy, dynamic regulatory compliance and a highly competitive landscape are driving the insurance industry to adopt new strategies for process optimization and higher productivity. Rapidly emerging technologies are crucial enablers for transformation in the insurance industry, especially in areas such as manual processes, customer retention, underwriter effectiveness, customer service response, and claims cycle times. Insurance firms that understand this and take advantage of existing Business Process Management (BPM) and optimization tools to increase operational efficiency and improve critical insurance processes, will be industry leaders in future.

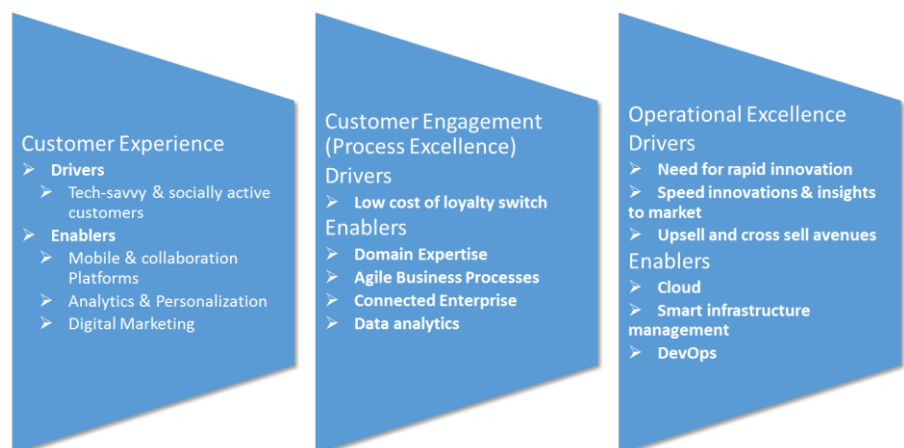
Total cost of ownership can be brought within optimal limits leveraging operational excellence strategies like cloud infrastructure and DevOps.

## Why Digital Transformation in Insurance?

There is immense pressure on global insurance firms to be more flexible and agile to facilitate an enhanced customer experience, agents / partner collaboration, cost optimization, operational excellence, regulatory compliance and innovation, and deliver best-in-class ROI.

Digital transformation addresses precisely these pain points and paves the way for a nimble organization that can be highly responsive to customer demands. The diagram below provides the blueprint for an insurance provider's digital transformation journey.

Delivering a seamless customer experience through an omni-channel approach and assuring best-in-class customer engagement can be achieved using the digital transformation model below.



Some of the key strategies for digital transformation include:

- Omni-channel distribution with focus on excellent customer service
- Scalability to adapt to increased demand and extended geographies
- Dynamic case management support for process optimization
- Reduced costs and settlement time frames within the claims lifecycle
- Focus on operational efficiency across the value chain reach

## Process Optimization in Insurance

Insurance industry trends aimed at enhancing profitability and customer experience underline the relevance of process reengineering and optimization in areas like:

- Insurance Contract Accounting Proposals
- Actuarial Modernization
- Risk Management

### **Insurance Contract Accounting Proposals**

The FASB (Financial Accounting Standards Board) and IASB (International Accounting Standards Board) issued draft proposals in June 2013 aimed at bringing about fundamental changes in accounting and financial reporting for insurance contracts. Both boards are proposing a 'current value' discounted cash flow measurement for liabilities. Any excess of due premiums received over expected claims and expenses are to be deferred as margin and are to be amortized into income over the duration of insurance policy. These proposed changes entail a high cost of implementation and need a fundamental overhaul of the existing contract accounting procedures. However leveraging BPM with rules management capabilities (BRMS) for these implementations is a viable and cost-effective option for insurance providers.

### **Actuarial Modernization**

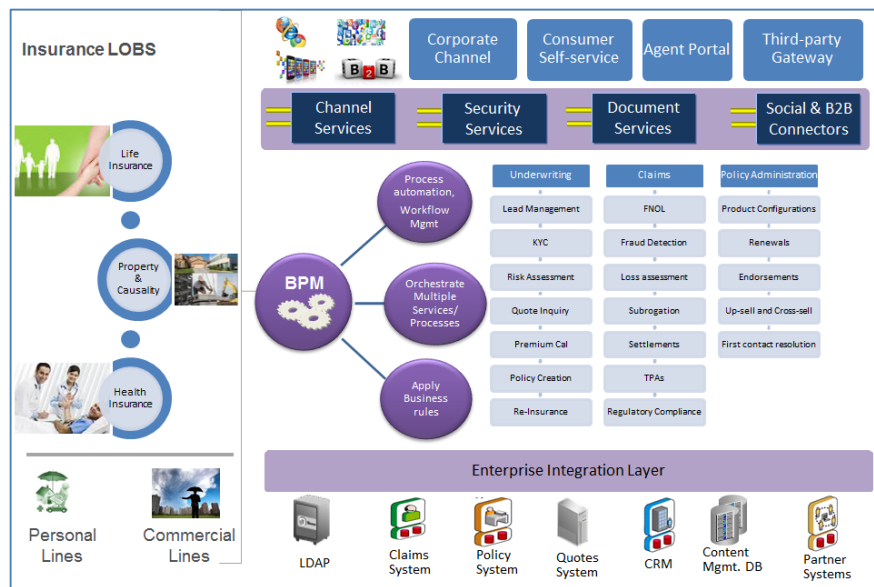
Actuarial science helps an insurer assess the overall risk from catastrophic events in relation to its underwriting capacity or surplus. As financial reporting and compliance requirements change, insurers will need to manage their business with respect to numerous additional matrices. Effective BPM implementations clubbed with Complex Event Processing (CEP) tools will help monitor many of these parameters and aid comprehensive reporting.

### **Risk Management**

In the last few years, insurers have opted for an Enterprise Risk Management (ERM) portfolio focusing on quantitative parameters. In addition they have separate risk management matrix systems for existing GAAP and statutory processes. All these disparate systems need to be integrated into a common orchestrated platform using BPM.

# BPM-based Digital Transformation Reference Architecture

The diagram below depicts predictable implementation architecture for digital transformation programs in the insurance domain. This can be used as a baseline for layered sequential distributed architecture spanning the omnichannel user interaction layer, BPM services orchestration layer and integration services layer. Interfacing with enterprise applications and databases ensures a modular, decoupled, flexible and scalable reference architecture for business process management and optimization initiatives.



## Digital Transformation Success through BPM

The transition to a digital enterprise through BPM will be successful if the following aspects are kept in mind:

### 1. Have a clear enterprise-wide BPM strategy

There needs to be a clear link between the insurer's corporate strategy and core processes. Whenever the corporate strategy is altered, the required process changes need to be reviewed to take stock of changes needed in the BPM strategy and associated investments.

### 2. Set up an Enterprise BPM governance board

Having an executive sponsor for the BPM transformational initiative, to whom the entire BPM governance board reports to, is a must for BPM success.

### 3. Process discovery with core insurance SMEs

Go by the norm that the best custodians of business processes are the in-house insurance SMEs – who need to be leveraged effectively for BPM implementation success.

#### **4. Choose a distributed agile implementation approach**

Start implementing process use cases by iterations to get the business rules and process flows right. Focus on delivering value; not just the requirements. Try to make the process operational within a 60- to 90-day window.

#### **5. Service-oriented BPM architecture is a must for reuse and reduced TCO**

Well-defined services will speed up integration, reuse and expansion. Avoid mistakes like “stove pipe” BPM or an “agile waterfall” practice.

#### **6. Use Dynamic Case Management for unstructured, long-standing process management**

Dynamic Case Management (DCM) refers to long-running processes that require coordination of knowledge, content, correspondence and human resources to complete certain work. Unlike traditional BPM, which forces every case to rigidly follow a predefined path that can't accommodate unforeseen circumstances, DCM capabilities of BPM tools adapt to every situation, and help businesses automate and complete the entire lifecycle of both planned and unplanned work.

#### **7. Rule Harvesting and Mining**

By nature, core insurance processes are rule-intensive. So harvesting and mining those business rules is key for a dynamic BPM implementation using best-in-class rule engines available in market.

#### **8. KPI monitoring**

Insurers need to monitor their key performance indicators (KPIs) in different views and the BPM implementation should cater to this at the process level wherever required, for example: loss ratio, loss frequency, cost ratio etc.

#### **9. Use the BPM platform to enable SMAC initiatives for optimized investments.**

Increasingly, BPM is being viewed by insurers as a unified technology platform for implementing all their transformational initiatives revolving around SMAC (Social, Mobile, Analytics and Cloud). BPM can enable existing process assets to facilitate crowdsourcing wherever applicable, extend customer channels for optimized user experience, facilitate layered KPI monitoring /Enterprise-level performance dash boards and cloud-enabled reusable process assets in a BPaaS (Business Process as a Service) mode.

## **Conclusion**

Process optimization and end-to-end digital transformation are the way forward for an industry that has to deal with dynamic regulatory compliance, competition and an increasingly customer-centric business environment. By effectively leveraging the adaptive and dynamic case management capabilities (DCM), and decoupled business rules management (BRMS) and Complex Event Processing (CEP) capabilities of BPM implementations, insurance providers can keep up with industry trends and gain competitive advantage.



## About Author

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Sajeev Madhavan Nair is the Vice President and Head of BPM Practice. Sajeev has more than 19 years of IT experience with proven expertise on BPM and EAI consulting, implementation and managed services. His specializations include BPM based digital transformation, “SMACT” Enablement (Social, Mobile, Analytics, Cloud, IoT based process implementation) and Predictive analytics using CEP (Complex Event Processing).

Prior to joining Mphasis, Sajeev was heading BPM and EAI practice in Mindtree Ltd with focus on products of IBM, PEGA, Oracle, TIBCO and Appian. He has worked with leading organizations such as Wipro, IBM, Mphasis and ITC Infotech. He has worked across verticals such as Banking, Insurance, Telecom, Media and Retail.

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