From Data to Decisions

Top 3 Application Areas for BI Tools in Insurance

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FOREWORD

At Veezoo we are building the first conversational artificial intelligence (AI) to analyze and visualize company data in seconds without needing any technical skills. In the last three months we have been working with several large insurance companies in Switzerland and the UK to identify use cases for Veezoo and help them tackle their strategic and operational challenges. In order to assure that we have a deep understanding of their industry, we analyzed various reports and met experts from academia, incumbents, insurtech startups and consultancies. Thus, we wanted to share our main insights from this research and present some exciting application areas for AI-powered business intelligence (BI) in insurance.

We would like to thank all the people who contributed their time to be interviewed for this white paper.

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CONTENT

DIGITAL TRANSFORMATION IN INSURANCE

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Most insurers want to do something new and have a budget to spend on digitisation, yet in Switzerland processes for corporate change are rather slow compared to other countries due to risk-aversion regarding security, privacy and so on.»

Strategy Consultant, Big 4 professional services firm

It is evident that insurers are facing dynamic times. What happened to retail, travel and hospitality, and media already 10 years ago, has eventually also hit insurance in the last couple of years - the industry is undergoing a profound digital transformation. Yet, what exactly does that mean?
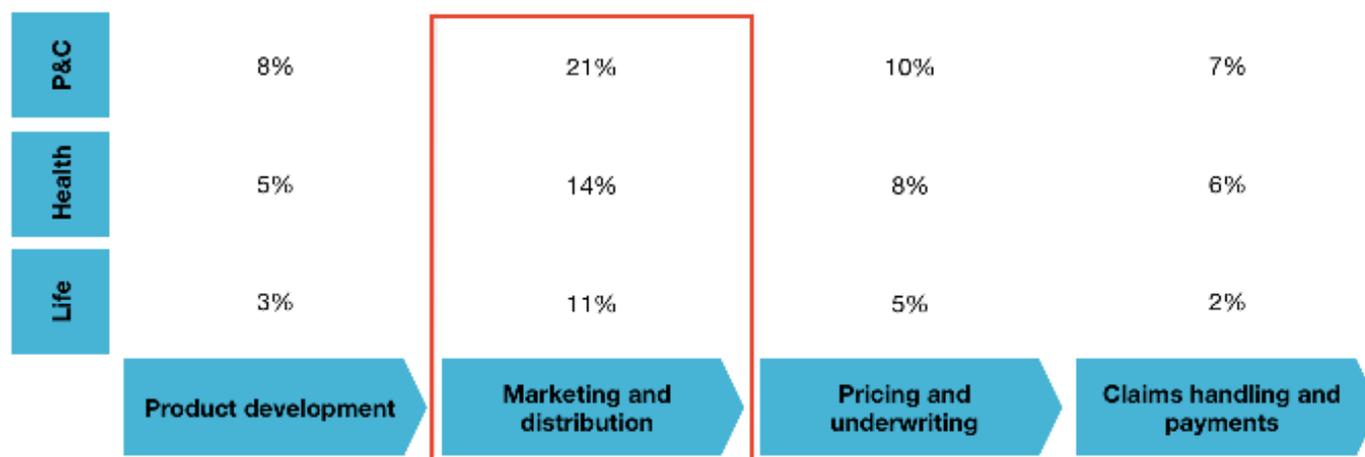
Leaving the legacies

First of all, insurers are modernising their operations by automating internal business processes (and some have already done it successfully) with state-of-the-art technologies to achieve higher efficiency. A big aim of these efforts is to overhaul legacy IT systems, which act as stumbling blocks in the digital age, since they are not compatible with new interfaces, generate huge system complexity and are very costly to maintain. Some insurers are even contemplating digitizing their existing analogue paper-based contracts and claims documents to be able to analyze them systematically.

Millennials expecting a smooth user experience

Second, digitization also influences demand. The new customer generation or so-called "millenials" have very different - and in many respects higher - expectations for the different steps along the customer journey due to their vast experience with customer-facing technology in the digital pioneer industries mentioned above. From buying shoes on Amazon to booking a holiday accommodation on Booking.com and reading the e-version of the New York Times on the way to work, everything is online, easily accessible and intuitive.

As the chart below indicates, most insurtech startups are therefore also trying to target the most customer-facing segment of the value chain, i.e. marketing and sales. A typical example would be Knip, a Switzerland-based startup, offering digital insurance administration and brokering. Their customers can not only manage their insurance portfolio through one easy-to-use mobile application, but can also compare prices and change provider.

Business model focus of insuretech companies, as of 2017, % of database

	Product development	Marketing and distribution	Pricing and underwriting	Claims handling and payments
P&C	8%	21%	10%	7%
Health	5%	14%	8%	6%
Life	3%	11%	5%	2%

Source: data from McKinsey Panorama Insuretech Database, proprietary illustration by Veezoo

Furthermore, creating a seamless, easy and enjoyable customer experience has become a central element of the sales process and a crucial competitive dimension for insurers. Lemonade, a US-based insurtech startup, for instance, uses a chatbot to advise customers instantly and sell policies directly. In the case of an insurance claim the initial damage assessment is undertaken by the chatbot - sometimes it even issues the payment within a couple of seconds. Overall, the industry is moving from a product focus to a customer-centric approach.

Using AI and big data to reinvent insurance

Third, insurance startups (as well as some pioneering incumbents) are starting to employ modern technologies such as smart sensors and Internet of things as well as AI to supply customers with innovative insurance products. For instance, some car insurance providers offer the opportunity to install a telematics box in the customer's car (sometimes coupled with an app) measuring the policyholder's driving behaviour. Based on this data the customer receives an individually tailored insurance premium. Naturally, the idea is to tailor the prices more accurately to each policyholder's risk: safe drivers end up paying less than reckless rowdies.

« **One of the main challenges of insurers is to cater to new customer needs, especially of the new millenial customers; they are used to have a seamless and easy user experience.»**

Head of Product, Swiss insurtech startup

Technology focus of insuretech companies, as of 2017, % of database
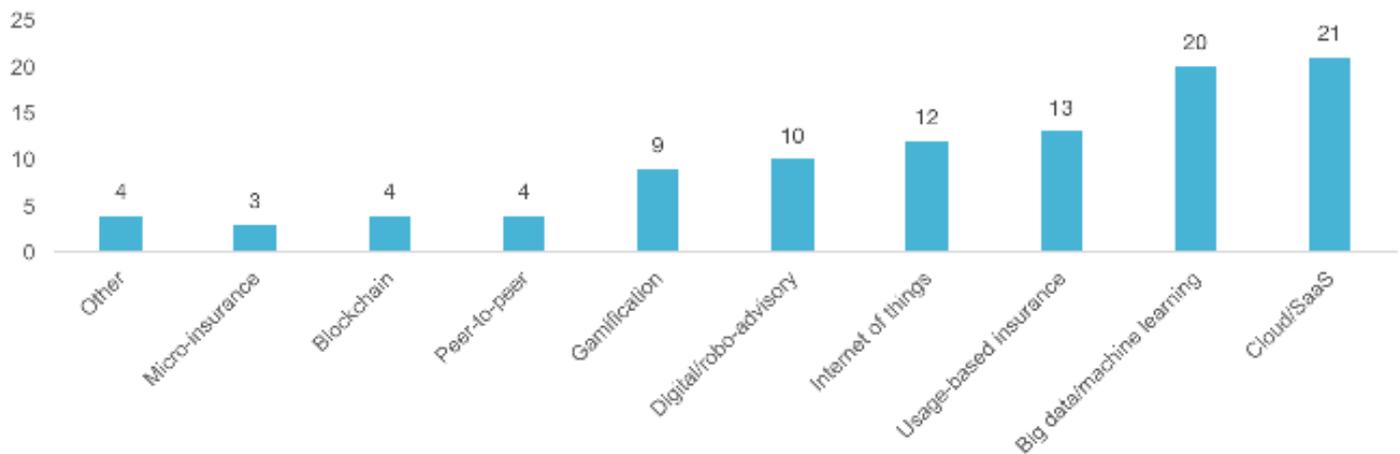
Source: data from McKinsey Panorama Insuretech Database, proprietary illustration by Veezoo

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Insurance depends quite heavily on structured data, so it is not surprising that artificial intelligence developers can build many use cases.»

BCG Henderson Institute

However, AI can also be applied at the other end of the value chain. According to a recent Forbes article fraudulent insurance claims are one of the biggest cost drivers in the industry amounting to c. USD 40bn per year in the US, burdening American households with USD 400 to 700 annually in the form of increased premiums. Some insurers are therefore employing machine learning algorithms to plow through reports, recognize patterns and identify fraudsters.

3 OPPORTUNITIES FOR INSURERS TO LEVERAGE BI

In the context of this digital transformation, the amount of available data is constantly growing. Hence, effectively transforming it into actionable business information is becoming a key capability for insurers. We were particularly interested to find out where exactly AI-powered business intelligence tools would create the most value, since Veezoo provides the first conversational artificial intelligence to analyze and visualize company data. Through our interviews we identified three application areas where the right BI technology could help to either improve top-line business performance or reduce costs.

Understanding the customer better

As noted, insurers are struggling to change their self-conception. With a new and young generation of customers demanding tailored products as well as a digital and easy customer journey, insurers must become much more customer-centric. To address these demands they are quickly implementing omni-channel strategies with an increasing focus on digital and mobile channels. This means that proprietary sales teams and agents must improve their digital game, as the data from Accenture's poll of more than 400 senior insurance executives indicates.

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Innovation is a difficult topic for incumbents, because these are large, sluggish organisations, where it is hard to push people out of traditional and pre-defined ways of thinking.»

Professor of Risk Management, HSG

Findings from Accenture's 2015 «Reimagining Insurance Distribution» survey

Data and analyitcs as top distribution technology investment,
% of respondents — 41

Customer data analytics for agents at point of sale as a top priority in sales investments,
% of respondents — 57

General digital enablement of salesforce with new tools to improve sales/distribution as top priority,
% of respondents — 66
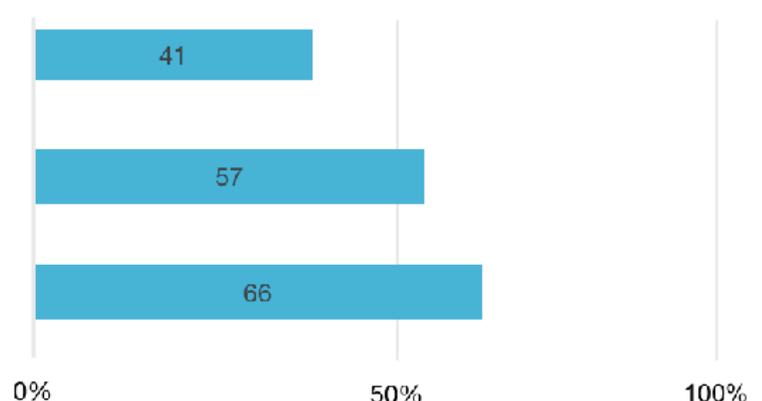
Source: Accenture, proprietary illustration by Veezoo

« In our company, the entire data handling process is still pretty cumbersome and complicated.»

Customer Advisor, large Swiss insurance company.

This implementation of digital tools offers huge potential too. A seasoned insurance consultant pointed out that a customer has on average only c. 1.2 contracts with one insurer. A strong sales representative might achieve an average of 1.6 insurance policies across their client base, but every decimal increase requires hard work. Imagine a storm causing damages to some homes in one specific region in Switzerland, e.g. Bern. In such an event a sales manager could quickly assess his customer portfolio and start a targeted campaign about personal belonging insurance in that region. Hence, instant and uncomplicated analyses of customer data to better understand customer needs and identify cross-selling opportunities would be an immensely valuable application area for business intelligence tools.

However, according to our interview partners, such instruments are barely available at the organizational level actually initiating campaigns or taking operational decisions. This leaves many sales managers and agents frustrated and revenue opportunities unexploited. Therefore, many insurers expect to invest substantially in data analytics to upgrade their sales and distribution capabilities and to specifically support their physical distribution channels with new tools.

Improving sales performance management

Almost all interview partners agreed that insurers are progressing rather slowly in their digital transformation due to their huge size and organizational culture, which is not primarily geared towards innovation and experimentation. In this respect, it is also not surprising that most of them confirmed that novel business intelligence tools are not very widely used across organizations. The ones that are being employed are neither very intuitive nor intelligent. This in turn implies that only a small circle of employees have the knowledge to properly use them for reports. As a result, the rest of the company relies on these analysts to have the information needed to make data-driven decisions.

Another problem is that it can be tedious to maintain an overview across different management systems. For instance, one insurance company's

regional sales lead bemoaned having to use three different internal tools to track representative performance: an annual target achievement dashboard, a scorecard and another more qualitative evaluation instrument. In case he wants to compare performance and sales behaviour across team members, he has to download individual spreadsheets and analyze them separately - something he rarely does given time constraints. He believes that a simplified on-top analytics solutions would create substantial value by enabling him to assess performance metrics quickly and in more detail. In this way, he could also better understand the strategies of strong sales representatives and coach weaker ones accordingly, which would in turn boost the overall effectiveness of his team.

Removing endless reporting backlogs

So, where does a marketing manager or sales team lead get the analysis he desperately needs to make an objective decision? Usually, such queries end up in the reporting or controlling department - piling up along many other routine reports. Thus, reporting backlogs can be considered as the visible symptoms of the previous two challenges, although their sources go beyond the sales department.

According to many of the interviewed experts it can take several weeks or even more than a month until a business decision maker is provided with the right data or analysis. This is harmful in two ways. First, it requires resources in the form of people - sometimes up to five people are involved in a single reporting request - and time on both the analyst's as well as on the business decision maker's side. Second, important decisions are delayed or cannot be taken at the right time inhibiting successful business development. Hence, a substantial reduction in the number of queries or the time to answer them would free up resources and save time and money across the organization. Moreover, functional teams and business developers could focus better on more strategic and valuable activities than mere data analysis.

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Generally, there is a lot of hesitation to add new tools to old legacy systems.»

Senior Manager Strategy Consulting, Big 4 professional services firm

CONCLUSION

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AI will fundamentally transform business. The best chance to succeed is to tune out the hype and do the necessary work. There is no substitute for action.»

BCG Henderson Institute

Due to their historical customer interaction model with infrequent and very transactional touch points, insurers did not feel the pressure to adopt new technologies to provide a better customer experience. As innovative insurtech start-ups have begun penetrating the market with new business models better suited to future customer generations, incumbents have realised their digital laggardness. Moreover, new technologies like smart sensors and the rise of digital distribution channels are generating a wide spectrum of invaluable customer data. Every interaction can now be recorded and analyzed.

Based on this understanding of the industry dynamics we tried to shed some light on one specific aspect of this digital transformation, namely the application areas for novel AI-powered data analysis and business intelligence tools. Through our expert interviews we revealed three highly interesting use cases for insurers to leverage their data and derive actionable insights.

1. An easier identification of cross-selling opportunities in the client portfolio and the possibility to quickly start new targeted campaigns both have tangible business value.

2. In addition, allowing sales team leads to monitor the performance of their agents and actually understand their behaviour can drastically increase sales force effectiveness.

3. Companies equipping their employees with easy-to-use data analysis tools can also save time and money by reducing reporting backlogs. The benefit is twofold: business users do not have to wait and can make quicker and more informed decisions, while controllers and reporting analysts can focus on more strategic work.

All three use cases leverage data that all large insurance companies have readily available. However, they lack the right instruments to exploit it effectively. Therefore, developing the ability to increase access to information in an intuitive and actionable way and use it for major strategic or daily operational decisions across an organization will be key to achieve sustainable competitive advantage in the 21st century.

WHO WE ARE

Veezoo provides the first conversational artificial intelligence solution to analyze and visualize company data in seconds, helping organizations make better data-driven decisions and accelerate digital transformation. The company was founded by two brothers, João Pedro and Marcos Monteiro, and Till Haug, who met as students. The core technology was spun off from ETH Zurich, a globally leading computer science university. Veezoo was the first startup to graduate from the Zurich-based F10 FinTech Incubator Program in 2015 and was chosen as the best Swiss fintech startup to complete the digitalSwitzerland Kickstart Accelerator Program 2016.

Five highly experienced Swiss entrepreneurs work with Veezoo as investors and advisors. The seed round for financing the team growth was led by security expert Dr. Thomas Dübendorfer, President of the Swiss ICT Investor Club, Richard Eisler, founder of comparis.ch, Sandro Cornella, CTI Coach and Stanford MBA, Flavio Rump, co-founder of DeinDeal.ch, as well as marketing expert Martin Welzl.

For further information please visit veezoo.com.