KPMG

Making automation work

Insurers adopt digital labor

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Even with significant investment towards automation, most insurers are still facing challenges moving from pilot to profit on their investments. Many are struggling to come up with a strategic, enterprise-wide approach to automation.

Our experience working with leading insurers suggests that creating the right digital labor strategy is an important enabler to transforming the enterprise. And our work suggests there are clear factors that drive success in formulating and executing a digital labor strategy in the insurance sector.

As insurers rapidly become more digitally enabled, many are starting to think much more strategically about how they use 'digital labor' to drive their transformation strategies and achieve their long-term objectives. Activity (and investment) has been feverish.

Some insurers have been incubating their own concepts for digital labor in their digital garages and venture capital units. Others have been talking with new insurtech startups and creating partnerships to explore and exploit new technologies. Many are simply hoping that their business process outsourcing providers will continue to innovate and introduce new digital labor concepts as they are commercialized.
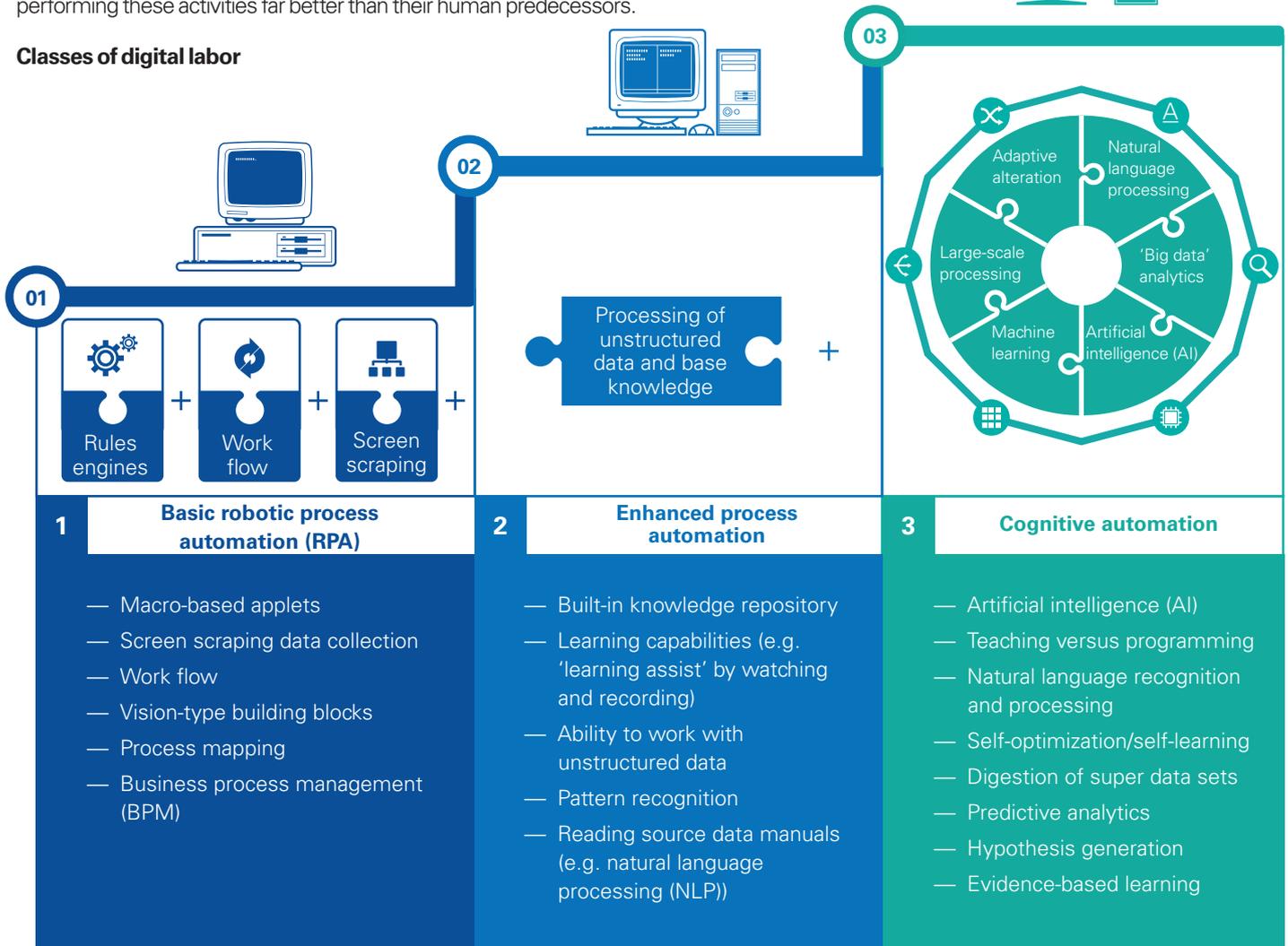
> " Digital labor has the ability to unlock unprecedented levels of productivity, agility, confidence and competitive advantage. "

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What is digital labor?

When we talk about 'digital labor', we are broadly referring to the automation of labor by leveraging digital technologies to augment, or automate the tasks undertaken by knowledge workers in your business. This extends from simple robotic automation through to machine learning and cognitive automation. The spectrum of potential 'digital labor' use cases can be very broad — ranging from automating simple swivel-chair activities such as cutting and pasting content from one system to another, right up through cognitive solutions (software that can think and reason) performing activities (e.g. business, medical, legal) previously performed exclusively by humans — and often performing these activities far better than their human predecessors.

Classes of digital labor

1	**Basic robotic process automation (RPA)**	2	**Enhanced process automation**	3	**Cognitive automation**
	— Macro-based applets — Screen scraping data collection — Work flow — Vision-type building blocks — Process mapping — Business process management (BPM)		— Built-in knowledge repository — Learning capabilities (e.g. 'learning assist' by watching and recording) — Ability to work with unstructured data — Pattern recognition — Reading source data manuals (e.g. natural language processing (NLP))		— Artificial intelligence (AI) — Teaching versus programming — Natural language recognition and processing — Self-optimization/self-learning — Digestion of super data sets — Predictive analytics — Hypothesis generation — Evidence-based learning

Source: KPMG in the US, 2016

Taking the first steps

Progress has also been encouraging. Almost every insurer we work with already has some type of robotics pilot project or automation initiative under way in one or, more often, multiple parts of the organization. Many have already automated some of their more routine processes, particularly in the finance function. Most are now trialing more sophisticated robotics techniques deeper in the organization.

Recent research also suggests that insurance CEOs expect digital labor to start to make an impact on their operating models almost immediately. In fact, almost a third of insurance CEOs say it is extremely likely that 5 percent or more of their technology workforce will be replaced through automation within the next 3 years.[1]

However, most efforts to introduce digital labor within the insurance sector have largely been focused on RPA; basically using robots (or, more accurately, algorithms) to speed up processes that had often already been automated. RPA reduces errors, improves processing time and encourages digitization by 30–40 percent and, therefore, is a great first step towards the adoption of digital labor. But insurers will need to become more sophisticated about their use of digital labor if they hope to drive real transformation and competitive advantage.

Cognitive competition

Here, too, competition is heating up. Enabled by newer technologies such as machine learning and natural language processing, some of the leading insurers are starting to develop new cognitive capabilities that could usher in a new era of

Five big digital labor questions for insurers

Development phase

1. Do you have clear executive sponsorship for the initiative?

2. Have you considered the impact on your organizational structure and culture?

3. Do you have a well-defined plan and strategy for labor automation across your enterprise?

4. Have you developed a strong approach to the governance?

5. Do you have basic consensus on security and risk mitigation?

Commercialization phase

1. Are your investments aligned to the organization's appetite and expectations?

2. Do you understand the key drivers and characteristics of each class of digital labor you are using?

3. Do you have a formalized approach for identifying and prioritizing automation initiatives?

4. Have you assessed opportunities for accelerating the path to value?

5. Do you know when to declare success or failure and move on to the next initiative?

productivity and customer-centricity. They are letting their bots watch their actuaries as they make their decisions; they are feeding them warehouses of historical data and decision records; and then they are starting to let them make key decisions in areas such as specialty commercial policy renewals and personal line claims approvals.

Interestingly, the leaders are the ones that recognize that — rather than delivering value through cost savings and head count reductions — the real value of digital labor actually comes from its ability to unlock unprecedented levels of productivity, organizational agility, confidence and competitive advantage. And that will allow some insurers (particularly larger, traditional ones) to operate and compete on a more level footing with their nimbler startup rivals not only in terms of cost, but also in terms of customer responsiveness and experience.

Now where?

The problem, however, is that few insurers know exactly how to move forward from here. The vast majority are struggling to take their pilot projects into full-scale production in a way that is meaningful to the business. Value-generating ideas and capabilities from one part of the organization are not being shared with other parts of the enterprise. And duplication is rampant. As a result, few insurers have any real road map to help guide their digital labor strategy.

Many also face significant capability challenges. Internally, few have the resources, skills or talent to drive forward an enterprise-wide digital labor strategy, let alone the underlying supporting IT architecture. And while the external vendor environment is certainly evolving, knitting together the right combination of solutions to enable the business is still highly complex. Few insurers want to play the technology developer/integrator role. Most would much rather focus on improving their core business.

It is perhaps not surprising, therefore, that almost every (91 percent) insurance CEO surveyed by KPMG International said they were concerned about the challenge of integrating automation with AI and cognitive computing.[2]

Creating a winning environment

We have worked with a number of traditional insurers to develop and execute their enterprise-wide digital labor strategy. And we witnessed some significant achievements and some unexpected failures; both offer useful lessons for insurers. Based on our experience, we have identified five success factors that are shared by many leading digital insurers.

1. They see the big picture. They take the time to fully understand how digital labor will apply across the

organization; looking at their end-to-end processes first, they identify the interdependencies and then they maximize the synergies. They think about more than just a single technology or solution set, focusing instead on developing the big picture and assessing the opportunities and impacts that emerge. They prioritize the investments that will deliver maximum value across the organization, rather than coddling pet projects or hot technologies. And, as a result, they approach initiatives and implementations with a much clearer view of how their strategy will deliver value. Interestingly, some of the most impactful initiatives are those being led by CFOs who tend to both hold the purse strings and see the 'bigger picture'.

2. They apply a change management approach. Leading insurers recognize that the introduction of digital labor will represent a massive change for the organization. And they are therefore putting significant investment into understanding and responding to the impacts of digital labor on the existing organization. From updating and reinforcing a new 'digital first' culture through to helping traditional employees to embrace new ways of working and recognizing development opportunities linked to this. Leading insurers are leveraging their best change management capabilities to ensure that their digital labor investments are being fully utilized.

3. They think globally and act locally. Leading insurers recognize that key capabilities and processes related to digital labor must be centralized in order to maximize their value and extend their reach. They understand and respond to their local markets, but also see the larger opportunity in leveraging global scale and commercializing local ideas. Many are already creating Centers of Excellence within key functions and geographies. The more advanced are then developing global/group Centers of Excellence to add consistency, improve oversight and identify synergies. At the same time, they are also providing the business with the right amount of flexibility to create

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and drive their own solutions within the context of the broader enterprise strategy.

4. **They create the right governance.** Rather than restricting the development of digital labor, the leaders are encouraging the business by creating the right governance structures and guidance. At times, they are acting as the group aggregator, maintaining and communicating a detailed inventory of the related projects and investments at play across the organization. In other cases, they are working to ensure the right ownership and controls are in place to reduce organizational risk, improve coordination and enhance compliance. The leaders are the ones that know what is happening in the organization and encourage the right behaviors to manage their risk.

5. **They measure and monitor the benefits.** They know what they want to achieve from their investments — both in the short and the long term — and they set reasonable objectives that go beyond the traditional short-term return expectations to include a broader basket of strategic measures. Then, they continuously measure and monitor the outcomes of their digital labor initiatives to uncover new opportunities and learn new lessons that can be applied across the organization. They do not allow projects to drift and are willing to cut initiatives that are not delivering on expectations or no longer match the strategic vision of the organization.

A better way?

Of course, there is another approach to building your digital labor force: you could always outsource it. Indeed, we've been working with a number of insurers (both smaller firms lacking the time or resources and larger players keen to focus on their core business) to deliver a managed services approach to the development and execution of their digital labor strategy. As with any form of outsourcing, it is critical to understand the art of the possible and identify how you want to leverage digital labor to best effect. You can then map this to a sourcing strategy, identify the right vendors, integrate their solutions and prepare for wider adoption of digital labor. Given the immaturity of the technology space, many insurers are relying on their sourcing partner to protect them from the shifting vendor landscape and the speed at which new capabilities are being introduced.

Our experience suggests that — regardless of the level of outside support you require — the adoption of digital labor will be key to driving value from digital transformation investments. Those insurers that take a well-planned and strategic approach to their digital labor strategy will be the winners in this new environment. ◼

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Case study: Putting automation to work in the claims payment process

Recognizing the connection between improved internal processes and customer satisfaction, the executive team of one large multilateral global insurer wanted to explore how they might leverage predictive analytics and automation to help streamline their claims payment process. The leadership had a lofty goal: to reduce the total time to pay from 30 days to just 15 minutes.

The organization began by identifying the key data factors underpinning the process and, after collecting and processing the structured and unstructured data, developed a proof of concept that used new machine learning algorithms to achieve their goal.

The initiative has been a tremendous success, delivering potential savings of almost 50 percent of the cost of claims processing, improved consistency within the process and creating better global cohesion. More importantly, the initiative has helped deliver dramatic improvements in customer experience at a critical 'moment of truth', enabling better interactions driven by the right people asking the right questions at the right time.

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