



July 16, 2015

4 Rules for Digital Transformation

by Brian Harrigan

Summary:

There are four key (and remarkably simple) constructs to guide digital transformation. No. 1: All insurance products are the same.

In 1990, I had the good fortune to meet the founders of a new technology company focused on the automation and real-time adjudication of health insurance claims. The company, Paperless Claims Inc., (PCI) was way, way ahead of its time, deploying “rules-based” logic to achieve an 80% first pass adjudication rate for completed health insurance claim transactions originating from a physician’s office via a dial-up modem. The final claim determination and payment details were transmitted back to the provider’s office in less than two minutes. PCI found some early adopter health payers for their technology, but the industry preferred to use people to process the massive amounts of paper for the majority of claim transactions over the next 20 years.

Fast-forward to today when suddenly the insurance segment is “ripe for digital transformation,” and all segments are scrambling for solutions to support online distribution and automated administration for virtually all types of insurance products across the personal lines, accident and health, small business commercial lines spectrum.

How do decision-making executives in the insurance segment know how to move beyond the status quo and put their company on the right path toward digital transformation? There are four key (and remarkably simple) constructs that provide the guidance:

- 1) All insurance products are the same. When you stop and think about it, all insurance products follow the same path from the acquisition of account data, to underwriting, rating, quoting and binding, then through policy issuance, premium invoicing, (billing), commission administration, financial reporting and renewals. Some products may require more underwriting than others, and others have more fulfillment than others, but, deep down, they all follow the same course.
- 2) All insurance products are governed by rules. There is a rule for every element of every product: underwriting rules, class codes, Zip codes, type of risk, height, weight, smoker/non-smoker, etc. All the rating rules and quoting parameters, questions around when certain endorsements and riders will apply, the rules for binding accounts and issuing policies, of premium billing, commission hierarchies and financial reporting are all known. The issue in most carriers today is that the application of those rules may vary based on the systems or people applying them.

3) Rules can be (and should be) automated. All insurance product and process rules can be automated, and, when they are, results for each transaction component require fewer touch points. The digital transformation of the process work flow provides users with “real-time” actions. You may say, “But there may be exceptions to rules, like giving an underwriter the ability to change a premium by up to 5%”. And I agree. In that case, you still want capture the reason(s) for the change and have a manager sign off – and both actions are just additional rules.

4) One system is better than many. Most carriers are saddled with single-function, component systems that have been banded together over the years. Every new product (and every product change) requires a Herculean effort to make sure “the system” can handle the business. Each year “the system” takes up ever-increasing resources for “maintenance,” “data reconciliation” or other non-revenue-generating activities. A single comprehensive system built on a relational database platform will reduce both staffing and maintenance costs and allow you to measure your product time in weeks, not days.

These are pretty simple concepts that can have an enormous impact on your business. Defining all product rules so that the majority of work flow, process transactions may be automated requires different thinking about the approach to systems than has been the traditional insurance segment view. Senior insurance industry executive are beginning to understand and appreciate the power of a comprehensive, platform.

<http://insurancethoughtleadership.com/4-rules-for-digital-transformation/>



About the Author

Brian Harrigan, a 39-year veteran of the insurance and employee benefits segment, is president and CEO of GBO/Insur IQ. GBO focuses on the digital distribution and automated, real-time underwriting and policy administration of insurance products across the life, A&H and P&C spectrum.