FINEOS

White Paper

Are Insurers Ready for the New Worker? The Future of Work and Benefits

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Foreword

By Chuck Johnston, Chief Marketing Officer, FINEOS

FINEOS has served the Life, Accident and Health insurance sector for many years and we are seeing the greatest shift in our customer's business landscape in over 20 years. As we continue to provide insurers with superior technology solutions that enable them to care for the people that they serve, we must support the current market and build for tomorrow's customer. To do this, we need to tap into the best thinking about the future of the insurance market, including the social and political drivers that will shape that market.

In this paper, David Smith explores the changes coming in the nature of work, driven by digitalization, shifting economic relationships, and the empowerment of the individual. David makes a compelling case for the rise of the freelance economy and the implications of that business model on the Life, Accident and Health Benefits market. Thoughtful dialogue is critically important in today's political atmosphere of extreme polarization, where many immediately assume the only answers are total socialization of benefits or a pure laissez faire marketplace. David proposes a few different models that can support a more flexible work model, provide choice for the individual, and still support both government benefits options and a commercial benefits market.

As technologists, it's important to remember that good systems are designed to either be easily replaced when unexpected changes in the business requirement demand it or to ensure that our systems can evolve with the business requirements as they change. Smartphones and most consumer electronics fall into the first category as the cost of replacement is relatively small and the advantage of upgrade is significant. Core insurance systems fall in the second category, where maintaining both product information and customer relationship information over decades is a critical business requirement. Unfortunately, most insurance core systems are designed to meet immediate business requirements at best, with small regard for where our market may move in the foreseeable future, creating the insurance industry legacy challenge that must be addressed as this market sea-change occurs.

FINEOS is committed to building technology solutions for the Life, Accident and Health market that will support today's market needs and provide a sustainable solution that can meet the needs of the evolving market. FINEOS AdminSuite is designed to evolve as the global market does, providing person-centric digital service across the insurance back office, both on-premise and in the cloud.

Executive summary

The foundations that have governed the notion of work are continuing to unravel. The insurance industry in particular is set for significant change during the coming decade – not only from the technological and cultural issues impacting the supply side of the business, but from potentially far reaching changes in the demand side of the industry. While issues such as driverless cars have been well documented, the issue of what happens to life and health insurance provision in an increasingly contingent workspace has received less attention. The provision of benefits to employees, including for healthcare and pensions, will increasingly be a key source of comparative advantage with regards to talent , but what about everybody else? A study by the Freelancers Union suggests that one in three members of the American workforce do some freelance work and this is set to grow by 2020[2].

Additional impacts through automation complicate the matter further. In the insurance industry it's foreseen that up to 99 percent of underwriting and 98 percent of claims activity could be fully automated . The vast majority of business leaders in the insurance industry do not see themselves as digital leaders or innovators, but this is what they must become to avoid the unfortunate alternative.

Platforms are emerging today that challenge existing insurance models through the use of peer-to-peer social models enabling customers to collaborate to negotiate better priced insurance or share risk together. The power of the provider in the existing insurance model is waning and the power of the consumer is in the ascendance; it is probable that the same mechanism will enable a revolution in the benefits sphere as well. The successful insurer of the future will embed the customer (and to a similar degree the employee) at the center of everything they do. This requires significant cultural and technological change but also represents a once-in-a-lifetime opportunity to meet customer and employee expectations and gain sustainable competitive advantage.

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Drivers of the future of work

Automation

Few trends seem to possess the transformational potential of automation. The potential scale of impact should not be underestimated. Deloitte suggests that technology could automate a third of UK jobs over the next 20 years[3] while other studies suggest that 47 percent of US jobs are at risk over the same period[4]. In Germany, as in the US, robots may soon take as many as half the existing jobs, according to the Bruegel Institute's analysis of the labor market[5] . In a separate study originating from Oxford Martin, it has also been forecast that underwriters face a 99 percent chance of automation, claims and policy processing clerks 98 percent, claims adjusters 98 percent and sales agents 92[6] percent by 2025. Currently, the annual effect of automation alone ranges from $35,000 to $65,000 per worker, depending on the occupation and could reach $6.7 trillion a year by 2025[7] .

This economic imperative ties together with a strong organizational case; seven out of ten respondents to an Economist Intelligence Unit survey agree that '...businesses have a responsibility to automate labor as much as possible to allow staff to focus on more valuable tasks[8].' Beyond the significant organizational ramifications, the nature of work, economic theory and government policy will all have to be rethought if technology is indeed destroying jobs faster than it is creating new ones[9]. More specifically, in an era of government debt, how do people accrue benefits such as Life, Accident and Health insurance if automation reduces employee head count?

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The role of technology

Since technology is moving between 3 and 5 times faster than management[10] , there is a significant and growing risk of ever shorter company life cycles. Indeed, digital technologies including the Internet of Things (IoT), cloud, and mobile could render 40 percent of companies in the world today irrelevant in 10 years[11]. This would clearly impact a huge swathe of the labor force and further encourage already visible signs of rising freelancing, new SME formation and new forms of 'employment.'

The ability of individuals to appropriate technology to compete with larger organizations should not be ignored either – techniques and methods from 3D printing through cognitive computing could all increase the emphasis on the individual and hitherto irregular forms of employment.

The on-demand economy

The International Labour Organization (ILO) estimates that only one quarter of workers worldwide has a stable employment relationship[12]. Some 50 percent face increasingly insecure work[13]. In this context, the rise of freelancing in mature economies should not come as a surprise. About one in three US workers are contingent and this figure is expected to rise to 40 percent by 2020[14].

There would appear to be appetite on both sides of the work divide for an increase in contingency to happen. The National Employment Law Project suggests that businesses stand to save up to 30 percent of their payroll tax costs by choosing to classify workers as independent contractors[15]. It should be noted that while numerous studies cite stable employment as a key desire for the majority of workers, 60 percent of Millennials in the US stay fewer than three years in a job and 45 percent say they would prefer more flexibility to more pay. The situation is not unique to the US either, as 87 percent of UK graduates with first- or second-class degrees see freelancing as highly attractive, while 85 percent believe freelancing will become the norm[16]. In fact 79 percent of HR executives suggest that employees will be expected to have multiple concurrent careers as soon as 2018[17]. The evolution of a career into multiple concurrent jobs will demand new products and services throughout the financial services spectrum that are suitable to this new normal as well as new systems of distributing benefits such as Life, Accident and Health insurance.

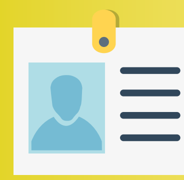
Talent platforms

One key emerging component of the on-demand economy is the talent platform. Current iterations include Amazon's Mechanical Turk, which claim 500,000 workers from 190 countries at any given time, and Upwork, where freelancers work on contract work ranging from photography to writing code. Upwork estimates it has some 10 million freelancers from 180 countries on its database, competing for 3 million or so tasks each year[18].

McKinsey estimate that by 2025 some 540 million workers will have used one of these platforms to find work and that they could add $2.7 trillion yearly to the global economy[19].

Networks and ecosystems

As freelance work and talent platforms evolve, this form of work is likely to require some form of vetting and thus qualified workers may appear. PSFK suggests we may not be far from '...a system that is constantly collecting and visualizing employee performance,' letting workers constantly rank each other on contributions and skills, generating metrics for worker engagement[20].



"**60%** of Millennials in the US stay fewer than three years in a job and **45%** say they would prefer more flexibility to more pay."

Crowdsourcing is already occurring within traditional corporate networks. PwC uses such a model to help turn loss-leading services profitable using such a model, as well as allowing staff to make extra money. The model in trial '...allows its team of 120 research and development tax specialists to earn a cash bonus if they process claims outside work hours of 8am to 6pm. At least half of the firm's R&D specialists are interested in engaging with the crowdsourcing model[21].' The model could provide a blueprint for future employment contracts but to a greater extent suggests that the notion of on-demand work is becoming mainstream.

As networks evolve, they could become a '...breeding ground for new kinds of intermediaries. Suppliers to on-demand platforms will eventually include companies of many sizes, not just individuals[22].' These networks or ecosystems combining with digital technologies could engender new routes to accrue work benefits as the traditional route of long term employment with a single employer diminishes.

The rise of customer-centric business

A widening gap between what people want and what companies offer

The rise of crowdsourcing blurs the lines between consumer and producer. What's more the issue of a lack of trust in business has been shown by Edelman to be remedied in part by better treatment of employees. The need to develop a customer-centric proposition is therefore heavily interlinked with providing a better work environment. Whether as workers or consumers, what people want is changing more quickly than what many organizations provide. For example, only 14 percent of UK workers want to work in a traditional office environment in the future[23]. Meanwhile, for 57 percent, social business sophistication matters when choosing an employer[24]. Organizational structures within the industry must mirror trends in the wider world of work and acknowledge that happier employees make for more engaged, efficient ones – and perhaps happier customers too.

A full 91 percent of employees believe digital technologies have the potential to fundamentally transform the way people in their organization work, but only 43 percent are satisfied with their organization's current reaction to digital trends[25]. Even among the over 60's, 72 percent consider it important to work for an organization that is digitally enabled or is a digital leader. This figure climbs to 85 percent among those aged 22-27.

For consumers too, strategic digital renewal is critical. At its best and probably in its most potent form, digitization means rethinking the business model and the processes that support customers and workers. Boston Consulting Group, for example, note that 15 percent of consumers in the Western world would prefer to conduct all of their transactions with insurance providers online, with a further 50 percent wishing to be able to access their insurers using a mix of digital and traditional channels[26]. The rise of self-service and self-selection will quickly morph from a 'products' issue to one of strategic importance that informs the entirety of the insurance business and employment terms and conditions.

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Insurance is lagging, but improving

Almost half of insurers admit to not having a realistic plan for digital transition (and 60 percent are missing key elements such as a clear vision or compliance and risk processes[27]). This carries an implicit message that 60 percent do not have a realistic plan for employee transformation or customer satisfaction. Insurers' core systems have historically been policy- or product-centric and aligned to business units – rather than customer or even employee wants or needs. Furthermore, insurers have tended to build their own systems, and many of the larger insurers still maintain highly customized bespoke applications that result in poorly integrated or 'siloed' data[28].

The insurance value chain will be disrupted, and from a growing range of possible vectors. Insurers' IT ecosystems will increasingly need to exist 'out there' – at the edge- rather than within the organzational walls; insurers will need to operate on platforms that connect themselves with their customers and the wider ecosystem.

The way we will buy, build and use technology is changing rapidly, which means the insurance teams and ecosystems that build it and run it will need to change too. Certain technology classes will necessitate organizational change – the technology strategy must match the overall business strategy and be aligned with processes and workforce capabilities.

Personalization as standard

The siloed structure of most insurance firms militates against being customer-centric. Insurers need to work across silos in collaboration to adapt offers to increasingly small micro-segments of their target market. This will require a deliberate effort to break down internal barriers and between external partners and themselves if the consumer is to see any great change. Customer-centric business models can improve loyalty, increase product sales by 5 to 20 percent, and lower customer attrition by three to five percentage point for banks.

Meeting the needs of tomorrows worker/business

What do Millennials want?

By 2017, Millennials (born between 1980 and 2000) are set to become the majority adult population in the US[29], and 50 percent of the global workforce by 2020[30]. The notion of what it means to be both an employee and employer is changing and, as a result, so is the nature of job offers, compensation and benefits.

The modern notion of work is shifting into an employee empowered, accountable model, where employees demand a consumer-grade experience[25]. The same technological and cultural shifts are needed to adapt to this are broadly the same as are needed for the better documented issues of attracting and retaining customers.

According to Towers Watson research, '...70 percent of employees believe their employers should understand them to the same degree they are expected to understand external customers, while only 43 percent of employees believe their employers meet that expectation.' The future of benefits will need to deliver a more humanized experience[31] for those still engaged in full-time employment and be adaptable enough to work for those in alternative arrangements.

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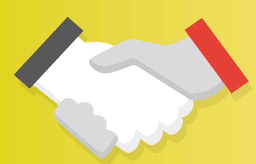


"The future of benefits will need to deliver a more humanized experience for those still engaged in full-time employment."

What does person-centricity imply? For workers? For businesses?

Millennials are 2.5 times more likely to adopt new technology than their older counterparts – which will make technology a key enabler of both consumer and worker centrism. According to a recent article in Insurance Journal, '…almost half of insurance industry professionals are over age 45, with 25 percent of the industry expected to retire by 2018. What's more, there will be 400,000 open positions by 2020[32].' However, only 2 percent of recent grads express interest in working in an insurance company[33]. Key technologies – whether in platforms or processes - are key for delivering both employee and consumer-centric products and services.

With regards to employee benefits, Towers Watson notes that an emerging array of '…technologies enable a much higher degree of interactivity and engagement, such as in wearable devices that track physical activity, sleep and diet. Before long, tracking devices could be combined with artificial intelligence and machine learning algorithms to help construct target investment portfolios that reflect an employee's risk profile and personal preferences[34].'

Hyper-personalization is the new norm in this hyper-connected world[35], with insurers facing a need to both reimagine the customer and employee experience. Engagement is key for both; not least because emotionally engaged customers represent a 23 percent premium in terms of wallet share and profitability for firms[36].

"Emotionally engaged customers represent a **23%** premium in terms of wallet share and profitability for firms."

Systems, processes and technology need to serve the individual

With the necessity of developing people-centric systems, 75 percent of insurers expect major transformation of the insurance value chain within the next five years[37].

SMA reports that 26 percent of insurers are already leveraging open innovation processes and 35 percent are using or developing an 'outside-in' ecosystem[38]. Such ecosystems are likely to introduce insurers to new processes and ways of doing things that could enable them to develop the agility needed to satisfy rapidly changing consumer and employee expectations.

Strategic change must coincide with organizational renewal. Many insurers haven't consolidated or else under-optimized the setup within their units. Especially for those insurers growing via startup takeovers, numerous processes, locations and governance structures could increase workload backlogs. This in turn could lead to a drop in agility, customer satisfaction and rise in employee dissatisfaction and would be a major worry at a time when the tools and services exist to promote these three issues.

Regulation

Irrespective of the uneven regulatory playing field regarding the debate over what constitutes an employee versus a contractor, whether globally or even within the US, changes in the future of work are occurring and will continue to do so. Bill Gates believes automation, for one, demands that tax codes are going to need to change to encourage companies to hire employees. This, he suggests, could include eliminating income and payroll taxes altogether[39]. Taxation and welfare will perhaps become key areas of innovation if society as a whole is to benefit from automated work driven by capital from a relatively small group of individuals.

What could benefits look like in the future?

Several future possibilities exist for distributing benefits in an economy that faces strong impacts from automation, changing expectations and innovative digital platforms. Figure 1, below, explores some of these possibilities.

France is currently considering the implementation of a new benefits system with the aim of preparing for a new economy and reducing inequality among individuals. The so called Individual Activity Accounts (IAAs) given to each adult member of society is feted to accumulate points much like airline travelers do. Work in both the private and public sectors are said to contribute points, as in theory could pro-bono community service work. Points could finance an array of benefits as well as lifelong education and training[40]. Such an approach could pave the way for more '...effective bespoke approach that fits peoples' needs better than coarsely tailored schemes,' – whether private or public and reduce the inequality seen with freelance work. This forms the basis of the 'Market of (all for) one' scenario below. The 'New networks' scenario, meanwhile, depicts a connected and highly networked work structure that is also the main conduit of benefits. It represents a sea-change in movement of power from insurers towards individuals and their networks – as currently seen in various P2P movements such as Lemonade.

'Corporate worker store,' assumes governmental intervention to ensure basic benefit provision for the increasing number of freelance workers. This includes classification of freelancers as employees, assumes a re-drawing of the corporate tax code and sees the future boundaries of work as fluid as the organization 'umbrella' widens to include the majority of important contractors. 'Micro-world,' draws on the many successes of micro-insurance products in emerging economies and envisages them becoming mainstream within advanced economies

In many cases, these scenarios are not all mutually exclusive and are illustrative only.

Figure 1: Future interplay of work and benefits

Conclusion

As a rule, the insurance industry is wise to consider that what passes as a certainty today may become more uncertain in the future. The contours of the future of work and the implications they have for benefits are clear enough in that they will change, perhaps significantly, from today. We are entering a new period of employment characterized by fewer permanent positions, less government assistance in relative terms and increased agility and flexibility.

Insurers need to adapt to this fluid environment through implementing digital technology strategically throughout their company, as well as culturally. This requires a focus to be people-centric as opposed to product centric – both in terms of the services offered consumers but also with regards to their own employees. Simply put, innovation will be sorely needed – at many levels- to cope with significant shifts in the provision of Life, Accident and Health insurance. Forging new business and work ecosystems, agile and strategically aligned technology and a form of flexibility not traditionally associated with insurance will all be key competencies in this new economy.

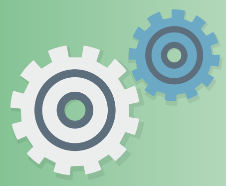
What should insurers do next?

- Implicitly accept that the foundations that have underpinned much of their life and health business is beginning to shift in profound ways.
- Explore ways of developing agility - both organizationally and with regards to product and services.
- Create people-centric propositions.
- Partner with third parties to acquire the expertise and technological agility that will be needed.
- Develop ecosystems that can help nurture new technologies, processes and products and services to cater to the new economy.

About the Author

A futurologist, and Chief Executive of Global Futures and Foresight (GFF) - a strategic futures research organization, David's 35 year diverse business career has made him recognizable as one of the world's leading futurists and strategic thinkers. GFF prepares views of the future on many topics including the Travel and Tourism industry, the world Insurance markets and visions of the future for government, the food, real estate, information technology and communications industries.

Since founding GFF, David has worked with many of the world's largest organizations, and government bodies as well as academic institutions and industry associations. His insights have led many organizations to embrace change and prepare innovative strategies to renew themselves and generate new growth.



"Innovation will be sorely needed to cope with significant shifts in the provision of Life, Accident and Health insurance."

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