The Insurance Industry is Ready for Outsourcing

Combined market forces in the insurance and annuity industry are driving carriers to outsource their business processing to a risk-sharing partner.
Introduction
The life insurance and annuity industry is giving outsourcing a fresh, new look. And more and more, industry leaders are liking what they are seeing.

As the global economy continues its slow climb out of the Great Recession, almost every business continues to seek ways to reduce costs and become more efficient. Outsourcing can be a boon to such efforts, but expense management is just one of a host of market forces driving the industry’s newfound openness to outsourcing. Outsourcing to a partner whose core competency is customer service will enable the carrier to excel.

Launching new products while building and securing distribution continues to be a focus for large and midsize carriers. Outsourcing the construction and processing of new products adds value by allowing carriers to focus their energy and attention on product definition and distribution while minimizing disruption of their current processing environment. The best outsourcing partners work with carriers to bring new products to market faster to allow them to capture market opportunities ahead of the competition.

Acquisitions of closed blocks of business – and even whole companies – is another growing trend in the industry driven by recessionary pressures. Consolidating administrative platforms can be a nightmare for a carrier’s IT department, dominating resources and attention that could be put to far more productive use developing and selling products. Outsourcing eliminates that nightmare.

85% of insurers currently outsource some element of information technology.

25-35% of insurers plan to use more external services this year.
Best-in-class firms go one step further, providing carriers an opportunity to truly transform their business. It’s far more than mere cost control; they combine 21st-century technology, deep industry expertise and a service-oriented culture to deliver outsourcing that actually enhances service, rather than sacrificing it, while lowering costs.

Following is a detailed look at each of these business drivers and how outsourcing addresses them.

**Expense Management**

In the life insurance and annuity industry, expense management is a process best performed with a scalpel, not a chain saw. The pressures are real, but so are the risks associated with cost-cutting measures that inconvenience, or even offend, policyholders or agents.

Now more than ever, changes need to be managed with care and leave both policyholders and agents fully satisfied – even while cost-reduction targets and timetables are met or exceeded. The process must be smooth, so that the other primary benefit of outsourcing – allowing management to focus on the core missions of product development and distribution management – is realized.

That requires skill, experience and commitment from the outsourcing partner.

That’s why one-size-fits-all outsourcing approaches usually don’t fit anyone very well. Each carrier’s situation is unique. Some welcome the extra savings that offshoring provides, while others are committed to maintaining a domestic workforce even while outsourcing. Some want to move an acquired block immediately to the outsourcing firm. Others may need a “bridge” solution to manage a block prior to outsourcing that enables them to keep the selling company’s workforce intact for a period of time without disrupting their in-house business processing system.

In choosing an outsourcing partner, carriers should focus on firms with a proven track record of flexibility, demonstrating that the firm is capable of tailoring an outsourcing solution to the carrier’s unique needs.
Outsourcing truly succeeds when the carrier gains a trusted partner that can be relied upon to meet performance standards consistently, allowing the carrier to focus on the core mission and reduce the resources committed to HR, management, compliance and technology. Best-in-class outsourcing firms can even provide supplemental actuarial support in situations such as new product testing prior to launch.

**Mergers and Acquisitions**

Acquiring blocks of business doesn’t have to mean acquiring yet another administrative platform, and all the system integration headaches that entails.

At best, consolidation of platforms is eventually achieved, the product of a time-consuming, expensive process that distracts your best talent from innovation and new product development. Too often, however, the acquiring firm ends up mired in a conversion that never ends, and never realizes the expected benefit of the transaction.

Better outsourcing firms provide additional benefits. For a newly acquired block built on a legacy mainframe system, the experience and advanced technology of a premium outsourcing firm can generate a reduction in business processing costs of as much as 40 percent. Administering that block in-house usually means fixed costs, but the best partners offer services in which administrative costs shrink steadily in tandem with the size of the block – without sacrificing reliability or customer service quality. In fact, in most instances, customer service quality improves because workers are using better tools. Oftentimes an opportunity exists to re-badge some of the selling firm’s associates. This allows the selling firm to preserve its reputation in its local community – while the outsourcing partner retains product and processing expertise.
With each block of business outsourced, the more efficient the carrier’s remaining in-house business processing becomes. That’s because changes in overall business processing practices have to be engineered into fewer legacy platforms.

That is the definition of true business transformation: when efficiency grows, costs decline and service improves, all at the same time. Transformation, however, is a lot easier to promise than it is to deliver. Carriers should compare the track records, not the claims, of prospective partners to see who has actually delivered transformation in the real world.

**Increase Revenue Growth**

In the high-tech 21st-century world, market opportunities arise quickly. Products designed to capitalize on those opportunities are developed quickly. And the marketplace learns of new developments quickly. First-to-market is today’s ultimate advantage, and seizing market opportunities is a race against your competition.

How fast does the process happen now? Best-in-class outsourcing/technology firms have installed new products onto their platforms in as little as 20 days-4 months – even complex products with a multitiered commission hierarchy. That kind of performance requires that products be constructed on a state-of-the-art technology platform that allows multiple functions to be built and tested concurrently, rather than in sequence.

To compete at that level, carriers need to select partners who offer a flexible, feature-rich distributed-technology platform. The technology is only half the story, however; the other necessary piece is a talented, experienced team of insurance-industry veterans.

**Upgrade Technology and Service**

A recent Novarica study indicated that one out of three life and annuity companies is giving serious consideration to replacing their base administrative system.

It’s no secret as to why. These aging, mainframe-based systems are slow and inefficient, lack modern computing capabilities and are prone to breakdowns. Today’s technical skills are a mismatch for older technology.

Aging systems by nature generate an almost unmanageable “technology sprawl.” Each new product added or block acquired over the years added a new platform and created another level of interfaces, so that making even simple across-the-board changes becomes an interminable process.
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Maintaining, fixing and training people to use these systems consumes enormous resources, but that’s not their biggest flaw. On these dinosaurs, creating new products and making them sales-ready takes so long that market opportunities can expire before they can be exploited. As platforms proliferate, carriers add another layer of expense for each one to maintain them, add staff to operate them, and train those people to use them. Multiple platforms also magnify the potential for errors and other forms of risk.

As a result, the business processing system doesn’t just slow business growth; it actively inhibits and suppresses it.

Perhaps most importantly, without a modern computing platform, a carrier just doesn’t look and feel like a legitimate 21st-century company to the new generation of customers and employees it needs to recruit. Today’s customers expect a service rep to be able to call up their file on a computer screen in seconds; you can’t tell them you need to pull a paper file and will call them back in an hour – or a day. That’s how 20th-century technology drives away 21st-century customers.

That’s also why today’s premium outsourcing firms enhance customer service. Those using modern distributed technology have the tools they need to provide the kind of service that customers expect; those that live a service-first culture are committed to using those tools to exceed customer expectations.

Why Today’s Outsourcing is Better Than Ever

Outsourcing business processing used to be a simple matter of labor arbitrage – tapping a lower-cost labor source, either domestic or offshore – combined with economies of scale. Business processing became cheaper – in every sense of the word.

The next generation of outsourcing added improved technology to the mix. New tools that were faster and more efficient boosted productivity, providing an even higher rate of return. Technology-based outsourcing vendors offered business-processing services to organizations ranging from insurance carriers to law firms to government agencies and charities.

Today’s “third wave” of business process outsourcing adds a significant qualitative difference, based on a deeper and broader understanding of a specific industry. Lower costs and greater efficiency are still vital benefits, but the next level of value for life and annuity companies comes from working with a risk-sharing, consultative partner specializing in serving the needs of this industry.
These best-in-class insurance specialists can offer consulting services that dramatically boost the efficiency of a business-processing function that remains in-house. These services provide objective analysis of a variety of outsourcing models and other efficiency-enhancing projects, such as product rationalization.

These providers understand the nature of risk and commit to sharing it, such as accepting the gain/loss exposure from market volatility. They understand the reluctance of carriers to share control of data, and provide exceptional levels of transparency – along with enforceable contracts guaranteeing performance – to allay those concerns.

Flexibility is another key attribute of the best outsourcing partners. Many carriers, for example, appreciate a variable staffing capability that allows a wide variety of models for reducing labor costs. These include offshoring, domestic staffing in lower-cost regions of the U.S., and part-time workers, plus the option of staffing up with temporary workers during periods of peak demand.

Functional alignment with the carrier’s business methods is another example of outsourcing adding value through flexibility. The best providers will dedicate staff and organize workflow and practices to match the client’s specifications.

Ultimately, the new generation of outsourcing is all about service: service to the client, to the client’s agents, and to the client’s policyholders. It means adding efficiency and lowering costs while improving reliability and customer satisfaction. It means providing custom-tailored solutions that fit the client like a glove. It means being committed to consultation, transparency and risk-sharing. Outsourcing is the path to business transformation. Is the industry ready for outsourcing? When you define it that way, who wouldn’t be?

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To learn how se² can fulfill your outsourcing needs, visit se2.com, call us at 800.747.3940 or email us at contact@se2.com.

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