

CASHING IN ON IOT: TIME FOR INSURERS  
TO CHANGE THE BLUEPRINT?



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## A WNS Perspective

In an interesting development last year, United Health Group, a U.S.-based healthcare and insurance company, partnered with wearable device maker Fitbit to include a fitness tracker as a part of its employer-sponsored health insurance program.<sup>1</sup> Employees could choose to wear a Fitbit to track their fitness activities, which would then be analyzed by the insurance company to reward healthcare credits. By encouraging its staff to adopt a healthier lifestyle with this Internet of Things (IoT)-based scheme, the insurance company hopes to significantly reduce the number of healthcare claims it will need to process in the future.

IoT-backed disruptions represent the start of a revolution for the insurance industry. From changing

insurance models that need to move away from fixed premiums to usage-based insurance to the shifting face of risk that will necessitate insurers to become preventers rather than be reactors, IoT is likely to transform the industry. IoT may even completely eliminate the need for certain insurance categories, while simultaneously creating massive opportunities in newer areas.

Many insurers are now investing a sizeable part of their income to explore IoT applications in the sector. Although projected to have the fastest spending growth in IoT,<sup>2</sup> the insurance industry still trails other sectors in taking advantage of data from IoT systems to create value for themselves and their customers.<sup>3</sup> Most insurers restrict themselves to exploring IoT for

applications such as telematics and are yet to understand the technology implications on their internal value chains. The massive amounts of behavioral data that IoT can help amass for in-depth analysis and subsequent action is of particular relevance here.

Right from sales and marketing, underwriting, pricing and risk management to Know Your Customer, claims management and customer engagement, data generated by IoT systems can help insurers innovate and boost efficiency. Let us briefly explore how.

1. <https://www.investopedia.com/news/fitbit-healthcare-deal-unitedhealth/>

2. <https://www.idc.com/getdoc.jsp?containerId=prUS42799917>

3. [http://www.ey.com/Publication/vwLUAssets/EY\\_-\\_The\\_internet\\_of\\_things\\_in\\_insurance/\\$FILE/EY-the-internet-of-things-in-insurance.pdf](http://www.ey.com/Publication/vwLUAssets/EY_-_The_internet_of_things_in_insurance/$FILE/EY-the-internet-of-things-in-insurance.pdf)

With analysts predicting the IoT market to touch anywhere between **USD 250-300 Billion** by 2020 insurers can hardly afford to ignore it



## Enhanced Profiling & Better Conversions

The insurance industry has traditionally operated with multiple parties in the sales function, dominated by agents and brokers, who often enable successful contract closures. Most of the customer information originates from these agents, creating an artificial barrier between insurers and end customers. Often, the information captured is inadequate resulting in lack of insights into the customer's future needs.

However, today's discerning customers increasingly prefer to

buy insurance directly from providers. This creates an opportunity for insurers to develop a comprehensive view of their customers in a bid to stay competitive.

IoT data can help insurers obtain relevant customer insights to offer personalized experiences and hyper-customized products. By integrating the customer data available from social media, public and financial records with the data and insights generated by IoT sensors, insurers will be able to

profile their customers better. They can then use these profiles to better engage with customers and launch highly targeted marketing campaigns and promotions.

By acting early on the IoT opportunity, insurers can get the much-needed edge in the age of omni-channel customer engagement. It can also help them substantially decrease the cost of sales and marketing by switching to direct sales channels with improved conversion rates.



## Smart Data & Smart Pricing

The process of insurance underwriting focuses on balancing two important parameters – the accurate evaluation of the underlying risk and the related pricing of policies. Conventionally, underwriting processes have relied heavily on historical claims and risk data, which may not be relevant for pricing risks in the future, given that lifestyles and customer demographics are constantly evolving. With the concept of driverless cars fast becoming an accepted reality, there will be far-reaching implications for auto insurance when risk ownerships moves from customers to car manufacturers.

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A study by KPMG<sup>4</sup> outlines a scenario where the need for auto insurance is predicted to shrink by more than 70 percent through 2050 as autonomous vehicles and mobility-on-demand change the dynamics of the auto segment.

On the other hand, as more 'smart' objects get connected, they are likely to become more vulnerable to threats. This will create more opportunities for insurers as risks such as total system shutdowns, hijacks, cyberattacks, data theft or ransoms become more common.

Cyber insurance will thus become more critical and perhaps take a higher priority over others. Case in point: the growth in the cyber insurance market with gross written premiums is expected to hit over USD 7.5 Billion before the end of this decade.<sup>5</sup>

Such a change in what we perceive as important risks that need cover will obviously require the insurance industry to keep pace. Thus, insurers will need to embrace revolutionary technologies for the reforms they augur and prepare themselves for the new opportunities and threats that await them.

The increased use of automation and robotics is also expected to result in 'safer environments,' perhaps even negating the need for insurance itself. In such a context, the current lengthy, intrusive and one-size-fits-all risk profiling and pricing approach to underwriting will not be applicable.

By using IoT-enabled sensors and wearables, insurers can look at obtaining more reliable risk data that can help them improve the underwriting process. The use of geo sensors and location data, for instance, can enable insurers to accurately map a property against

risks such as crime, fire or natural catastrophes.

Particular locations can be assigned different risk scores depending on their past records and future forecasts. By mapping insured properties to 'scored locations,' actual risk can be ascertained to price policies more precisely. This can also help insurers drive down the costs and time associated with risk assessment and pass on the resulting benefits to customers through lower premiums. Insurance companies can also go the extra mile by sending alerts about neighborhood incidents or weather forecasts to alert customers to remain cautious or be better prepared.

Similarly, underwriters can use real-time sensor data to price health insurance policies and dynamically update them as risk parameters change as in the case of the United Health Group example. As IoT gives insurers greater access to customer data, it can definitely help the industry craft a win-win proposition for companies and customers.

4. <https://assets.kpmg.com/content/dam/kpmg/us/pdf/2017/06/chaotic-middle-autonomous-vehicle-paper.pdf>  
5. <https://www.pwc.com/gx/en/industries/financial-services/insurance/publications/insurance-2020-cyber.html>



## Personalization & Quicker Settlements

The basic operations of insurance are based on reactive claims settlements when the underwritten risk materializes. The profit of the industry is based on the difference between the premiums collected and the claims serviced along with the frauds that may go undetected. As a result, insurers spend a considerable amount of time to ensure accuracy in claims verification and processing. However, this often drives up administrative expenses, lowers profitability and, in turn, impacts the prices offered to customers. To add to this, customers now prefer personalized solutions, automated processes and convenient interactions.

IoT can make a big difference here. It can substantially improve claims management and customer engagement processes in two

major ways – by reducing the number of incidents that result in claims and automating insurance processes for better customer services.

Using IoT-enabled connected devices and sophisticated sensors, insurers can monitor a wide range of environmental factors such as temperature, humidity and smoke to help customers prevent any incidents that may result in a claim. In the event of monitored parameters crossing certain thresholds, alerts can be sent to customers to take immediate actions to prevent damage to their properties. Applicable in health insurance as well, such a value proposition can help customers reduce the risk of incidents and help insurers lower the number of claims. With IoT generating massive amounts of reliable and

truthful machine data, insurers can also process claims faster and reduce frauds.

The insurance claims and settlement processes can also be enhanced through the use of IoT-enabled drones that can be utilized to inspect accident sites or damaged properties. Such automation of claims verification will help reduce the generally high costs and time associated with the tasks.

IoT will decidedly revolutionize the way insurers operate, view, quantify and price risks, whether related to life, health or property. Unlike any other previous industry movement, it might even decide the winners and the losers. If insurers are keen on getting the first mover advantage in this rapidly advancing development, the time to act is now.



## About WNS

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