Changes in the Insurance Market Give a Push Towards Outsourcing

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The Internet has changed the way customers buy insurance and maintain contact with the insurance provider. Customers do not rely much on contact centers anymore, and instead prefer the online self-service mode if they have to reach the insurer. This recent trend in the insurance industry has thrown up several challenges around the traditional sales model. Third-party outsourcing partners, who offer flexible operating models, are finding a fit in the current environment.

Recently, I was at a panel for a Webinar organized by *Post Magazine* and *Insurance Age* on 'Developing Business Models for Effective Growth'. The other panelists were Noel Cullen, Acting Head - Financial Services Sourcing Advisory, KPMG, and Mahben Quddus, Underwriting Operations Manager, Plum Underwriting. The discussion was moderated by Jonathan Swift, Editor-in-chief, *Post Magazine* and *Insurance Age*. The panel discussed the increased role of outsourcing in the sales and underwriting processes and how outsourcing can stimulate higher business growth for insurance companies.

Traditionally, insurance companies have depended on the broker channel and their own direct sales teams to generate sales and cater to after-sales services. Thus, insurance companies invested heavily in customer contact centers and now they find that their customers are not using that channel. The situation is more pronounced in volume-based businesses like auto insurance or health insurance. These companies are now looking at new ways of doing business, where they can share the investments and the risks. For both the sales and underwriting processes, the role of third-party service providers like WNS has increased.

Outsourcing the Insurance Sales Process

How does an outsourcing service provider fit into this scenario? An outsourcing service provider that makes significant technology investments can effectively interact with the customer and shoulder some of the risks in the customer journey. The outsourcer can take over some of the functions in the sale process and policy administration that the insurer has traditionally taken.

In What Ways is the Outsourced Sales Model Different?

1. When an outsourcing company takes over the sales and policy administration roles, the customer remains with the insurer, unlike in the broker channel where the broker owns the customer.
2. Insurance companies can now off-load the technology investment to the outsourcing company. The insurer derives the benefits of the technology that the outsourcing partner has invested in, without having to pay to acquire it.
3. Instead of a fixed cost of operating the contact center, the insurance company has a flexible cost structure to opt from. The outsourcing company could get paid per claim, per proposal-to-sale or per proposal administered. It is a commission-based system like with the broker, but the key difference is that the customer continues to be owned by the insurance company.

Noel and Mahben spoke about the enhanced maturity in the outsourcing model, which has moved beyond finance and accounting functions to claims processing. More recently, it has moved to business regeneration and revenue enhancement rather than the plain cost saving proposition.

The next stage would be product development. The other key factor highlighted during the discussion was the increasing commoditization of the market. In such an environment, there is less justification for insurers to retain the traditional administration roles and involve an outsourcing company instead.

As the maturity curve and the value proposition from outsourcing move up, there is increased flexibility in the way the engagement is structured. There is a move from being a pure service provider where the outsourcing company gets paid per transaction, to one of a close partnership with the insurance company. Like Noel said, this emerging business model is ideal during the current credit crunch when the third-party provider spreads the costs of the resources.

Partnership to Share Costs, Spread Risks

In recent times, there have been some outsourcing contracts of over 10-15 years. This is a sign of the times when the two parties enter into a partnership where they share the costs and the benefits. Through a long-term outsourcing agreement spread across 7-15 years, insurance companies can take advantage of investment commitments that the outsourcing partner makes. But if the insurance company is only looking at cost savings in the short-term, they cannot expect long-term investment commitments from the outsourcing partner. This arrangement works as much for a small insurance company as for the big players. The costs of setting up a contact center may not add up for a small company with the bulk of its customers going online. The benefits of shared services come into play here. The insurance provider can take advantage of the shared training, location, infrastructure and technology that the outsourcing partner offers.

The other advantage in the shared service center is the ability to downsize or close-down. If the insurance company does not see the need to continue with the facility in the future, the third-party provider could downsize the operation or close it down. The service provider could re-deploy the resources to other locations.

This model also provides insurance companies the flexibility to spread the offering between an offshore and an onshore facility. For example, U.K. insurance companies want to retain U.K. voice for its front-end sales processes. A third-party outsourcing provider can transfer some of the skill-sets to the onshore facility and offer the insurance company a mix of onshore and offshore processes to satisfy its requirements. The insurance company can decide on the sales processes to be outsourced vis-à-vis the ones that need to be retained.

The acquisition costs of customers can be significant. The outsourced model for the sales process helps insurance companies acquire actionable Market Intelligence (MI) besides driving sales. With the surge of virtual insurance providers who are attacking the market aggressively, there is a need to gather MI more effectively. The quality of MI provided improves as the outsourcing partner relies heavily on technology. Technology enables tracking of the customer journey, thereby producing valuable insights with which it can drive the sales process.

How Do You Choose a Credible Outsourcing Partner?

Some of the key points that emerged during the discussion are that an outsourcing partner must:

- Have an incredible track record
- Possess experience in your sector
- Allow you access to speak to your customers
- Fare well in peer comparison
- Demonstrate the ability to grow as you grow
- Be able to handle spurts and troughs in business

This is an exciting phase in the evolution of the insurance industry. Deals are getting more strategic in nature. The increased maturity model and the benefits that insurance companies accrue are getting reflected in the positive attitudinal change in the market towards outsourcing.

The Webinar ("Developing Business Models for Effective Growth") poll questions and how participants responded to them:

1. With the rise of the Internet and customer self-service, do sales call centers still make financial sense?
   35 percent said Yes
2. Does technology limit your ability to take products to the market?
   Most said Yes
3. Do you currently outsource your sales process?
   61 percent said No
4. Would you consider working with an external service provider?
   23 percent said Yes; 63 percent said Yes, but not for all products

To learn more, please write to us at **info@wns.com**