

Tailwinds or Headwinds?

Using digital technology to empower your traditional insurance workforce

The global insurance marketplace has recently been positively disrupted by a wave of advanced digital technologies like Robotic Process Automation (RPA) and other InsurTech assets. Insurers who are already experimenting with RPA in their operations can expect to see growth opportunities arising from the "digital natives" – millennials – in the long-run. In Asia, the Hong Kong insurance market is now entering into a new era of mixing innovative technology with regulatory changes, while emerging business models are currently under the crystal ball test.

With advancements in technology accelerating, it is clear that we are on the cusp of a new age – of machine learning, machine doing, and ultimately true artificial intelligence (AI). It is a pivotal point in recent history that presents both opportunities and challenges. And arguably, the most significant economic and social impact will be on the workforce – how work gets done and by whom. Because the future of work is hardly just about technology: it is about leveraging exponential technologies to empower the traditional workforce and accelerate business growth, as we enter the Fourth Industrial Revolution (also known as "Industry 4.0"). In this new era, the shift from foundational digitization to innovation based on combinations of technologies is forcing companies to re-examine how to do business.

For labor, at least, companies that fail to develop an ecosystem of both human and virtual (e.g. robotics) resources will be at risk of missing efficiency and engagement opportunities that can lead to stagnation – or, worse, obsolescence. The workforce of the Fourth Industrial Revolution, in other words, will not be restricted to permanent employees supplemented by contractors. Organizations will increasingly depend on crowdsourcing, freelancers, and the full spectrum of automation, beginning with RPA.

The importance of automation is only going to elevate for the organization of the future given its promise of better customer experience, cost containment or reduction, reduced errors, and so on. The positive outcome of these is possible, as long as organizations continue to have the courage to think before acting and to making decisions based on a balanced view, to adequately prepare workers, and to future-proof their organizations.

Rising Trends

RPA is simply a software solution that mimics a variety of rules-based, repeatable processes that do not require real-time judgment. It can perform simple to complex processes without interruption, enables scalability and faster handling time, with reduced chances for errors and frauds. In short, by "taking the robot out of the human", people are freed up to take on higher value tasks.

History has shown that automation tends to create more jobs than it destroys, as human skills become more critical in monitoring, decision making, interpreting, and delivering insight and service to customers. In essence, RPA empowers people to optimize their individual value, connect more fully with the purpose and strategy of their organizations and to reach markets that limitations on capacity and mobility had previously kept out of reach. Although RPA may make certain tasks effectively redundant, it will also create new ones and enable sales and service professionals to spend more time in customer engagements.

While 32 percent of companies are prepared for RPA's technology implications, only 12 percent are prepared for the people implications. Our own research backs this up: only 17 percent of respondents to Deloitte's 2017 Global Human Capital Trends Survey say they are ready to handle a workforce consisting of people, robots, and AI working side by side. As many as 60-70 percent of transformations fail due to poor change management.

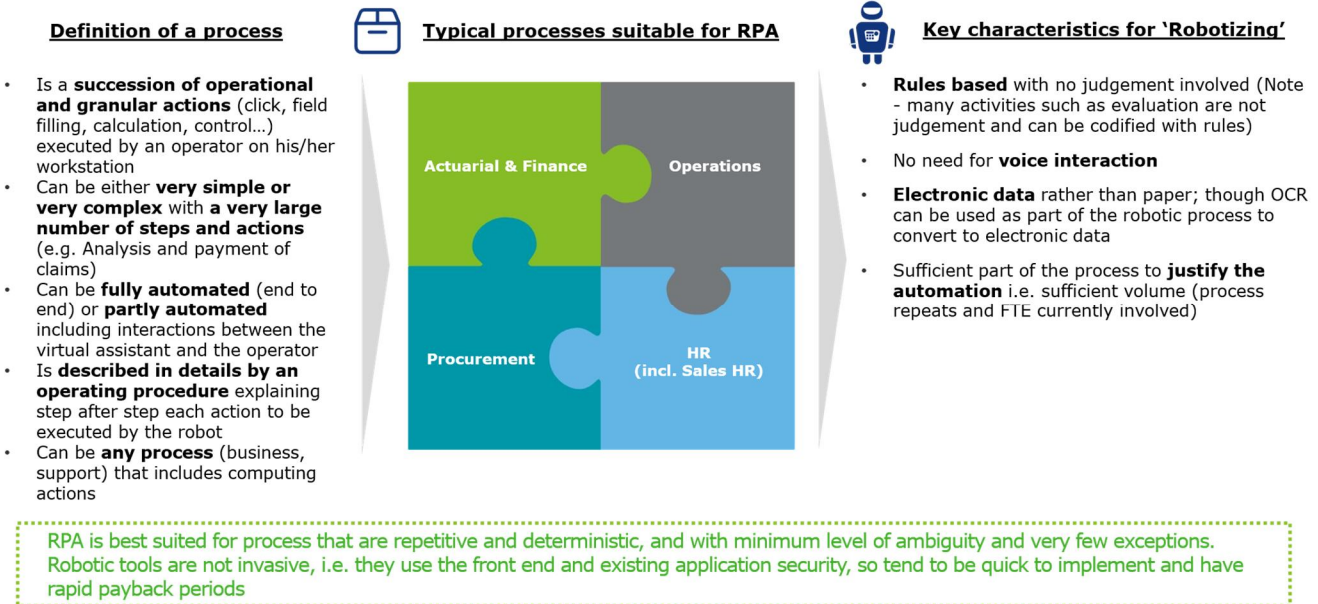
RPA represents an opportunity to accelerate business strategy and maximize both growth and organizational performance through the automation of select processes and redeployment and/or removal of excess capacity. As with any large-scale business transformation, the

"As a new world of work is upon us, insurers that are not already considering RPA and other forms of automation as a component of a broader worker ecosystem will miss significant opportunities for efficiency, quality enhancement, risk mitigations, innovation, and ultimately, growth."

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implementation of RPA should be reconsidered holistically, covering business strategy, people and organization alignment, process, and technology. Implementation is also very agile, so these elements should be managed in parallel to drive synchronicity.

Figure 1: What processes are suitable to deploy with RPA?



Source: Deloitte Consulting

When preparing for an RPA implementation of any magnitude, it is crucial for companies to develop an iterative change management approach right from the start. Regardless of the scale of the implementation, employees will fear disruption and potential job losses. Organizations need to be clear on the process and intent, even in the absence of definitive answers, so that changes happening on the ground make sense to employees at all levels. This includes gaining leadership alignment on business case and vision, establishing a clear governance structure, understanding stakeholders and the ways in which they support or resist the transformation, considering the impacts on culture, organization and governance design, realigning the workforce capability and transition strategy, and crafting a top-down communications and engagement plan.

As RPA is still a relatively novel concept to most stakeholders, key messages explaining what it is and what it is not are crucial to both building trust in the organization – and to the success of the transformation. Moreover, RPA deployment can span across departments, leading to ambiguity on program ownership. Leadership alignment and readiness for the shift is therefore important to address early on. And because the program will require a center of expertise and centralized governance model, with clear accountabilities and strong executive sponsorship, finance, IT, risk, compliance, HR, procurement and executive leadership should all be at the table.

While disruptions and transitions are hard to manage, when employees understand how the initiative links to overall strategy, such as better customer experience, cost containment or reduction, revenue

"In order to best integrate RPA into your broader strategic objectives, it is important to consider RPA as part of ongoing change across many dimensions in the workforce. In short, understanding how RPA will affect your existing workforce, and coupling delivery with appropriate change management and organizational design are critical steps for organizations looking to make the leap."

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enhancement, and so on; and how they will benefit, they will be more inclined to move quickly along the change curve. Leadership also needs to orient the workforce to the future-state. Employees will have to know how to operate in the new environment and ecosystem. Thinking through a training strategy that focuses on continuous improvement and includes both technical training (e.g., change management, program management, automation management) and leadership development (e.g., genuinely "human" skills like empathy and persuasion) will help the organization manage through and sustain the change. Traditional leadership development models will need to be realigned to incorporate a new set of digital requirements or DNA to ensure effective selection and development of digital leaders to steer the change. Deloitte's research on digital leadership, based on studies done with MIT, shows a shift in leadership capabilities in three areas: how leaders must think, act, and react. It also places stronger emphasis on risk-taking, experimentation, managing ambiguity, collaboration, resilience and culture sensitivity for leaders within this digital era.

Creating "agile" organizations, of course, has long been a focus of business leaders, with 92 percent wanting to bring people closer to customers, increase the speed of innovation, and improve employee empowerment and engagement. RPA can be a powerful enabler of these objectives; however, organizational design must be considered alongside implementation.

In Deloitte's recent global survey of human resource professionals, 65 percent of respondents saw RPA as an operating model play, enabling the introduction of a "digital workforce" that predominantly handles purely transactional activities. The implementation of RPA at scale will require new organizational structures, including centralized and decentralized automation teams and accountabilities, disbanding or displacement of certain functions, etc.; as well as adaptation to existing ones, for example, changes in department scope and team agility.

While some functions and roles will change significantly or disappear altogether, new roles will emerge, such as "robot controller" to manage scheduling and process monitoring, and "process robotics developer" to maintain modelled processes when applications change and to be the robot controller's first point of contact in the case of problems of other issues.

Since RPA will shift the way people work through defined processes, organizational structures and roles will need to be designed with clear accountabilities and outcomes in mind. Deloitte conducted a study jointly with MIT in 2016 and found that 70 percent of business leaders believe they will need a new mix of talent and skills in the future. With RPA, some of the things your people have been doing will no longer be required of them, whereas some new things will be – and they'll tend to be things that humans can still do better than machines.

Skills such as perception and manipulation, creativity, social interaction, and social intelligence will become more and more critical both for leaders and for employees, as these are the skills most difficult to automate. Emerging roles, moreover, will require a whole new set of capabilities and connection points: any leader, for instance, leading a team that includes RPA would need to have some level of technical literacy to be able to manage the virtual workforce.

"In order to ensure alignment between your automation strategy and your broader corporate strategy, leadership needs to be fully aligned not just on business case financials, but also on workforce consideration. In short, RPA requires changes to the broader talent management strategy and operating model to maximize value and realize the benefits."

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Headcount may also change, depending on how automation continues to be deployed and how teams evolve. A workforce plan that links strategy and work to workforce impacts across physical proximity, automation level, talent category, and economic impact, will be the basis of a revised talent strategy. Hence, the plan will bridge the gap between vision, strategy, and people to govern the number and capabilities of workers, the timing of transition, and new talent acquisition.

The Workforce of the Future

According to the Deloitte 2017 Global Human Capital Trends report, 50 percent of leaders surveyed rate their company as weak at aligning competency frameworks to account for new robotics and AI requirements, as well as at redeploying employees replaced by these technologies and reskilling others to complement the new tools.

With a move to RPA, leadership may need to consider revamping corporate culture by enabling effective use of virtual teams (e.g. underwriting or claims centers of excellence), increasing trust in technology, and embracing innovation and analysis. This can be achieved with the right leadership interventions and sponsorship. Based on the outputs of workforce planning, organizations need to identify and reconcile the capabilities they have with the ones they'll need, and then devise a plan to develop and/or acquire the latter. An end-to-end review of the organization's talent lifecycle, from recruitment through to career planning and transition, will be required to close skills gaps.

It is also critical to manage change deliberately with employees, understand any and all impacts to their roles and how RPA will contribute to the bigger picture. All employees surrounding RPA implementation (and conceivably then some) will likely deal with one or the other of a role change, role elimination or capability change (e.g. retooling data entry personnel for handling policy administration to become underwriters or junior claims handlers as fraud management specialists). A targeted transition plan (and a development plan for everyone else) that addresses each of these types of change at the individual and department levels will mitigate unnecessary confusion and enable a quicker arrival at "steady state." It is also important to plan for knowledge transfer and management, particularly from those who will be leaving the organization. A group of digital leaders or ambassadors across different levels of the organization will need to be identified and empowered to champion the right behaviors and drive ongoing adoption and exploration.

Once RPA has been deployed and workers have been transitioned to their new roles or out of the organization, nimble progression to a steady state is critical to reaping the benefits of the business case. This involves quickly gathering feedback and ensuring continual improvement with phased process of constant change.

As the virtual workforce stabilizes and the newly defined worker ecosystem becomes the new normal, it is important to continue to assess progress versus cultural vision, planning for interventions to close any gaps, and refining all aspects of the organization's talent strategy and processes to be inclusive of all types of workers. Learning and development may also need to change to ensure employees and leaders are prepared to work in hybrid teams and use their skills in more cross-functional ways. Performance management and recognition may need to be adjusted to ensure leaders and employees are incentivized to work with the virtual workforce, instead of around it. This will also lead to an overall requirement of evaluating HR

"In order to realize the full value of RPA, it's important that you take advantage of the other key benefits – such as improved data quality and reduction of errors – which empower people to work with greater efficiency and results. In short, the benefits of RPA extend beyond cost reduction through headcount savings and provide a long-term business advantage by moving people up the value chain."

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capabilities and re-tooling and re-training the HR function, in order to adapt to the changing workplace and sustain the relevant benefits.

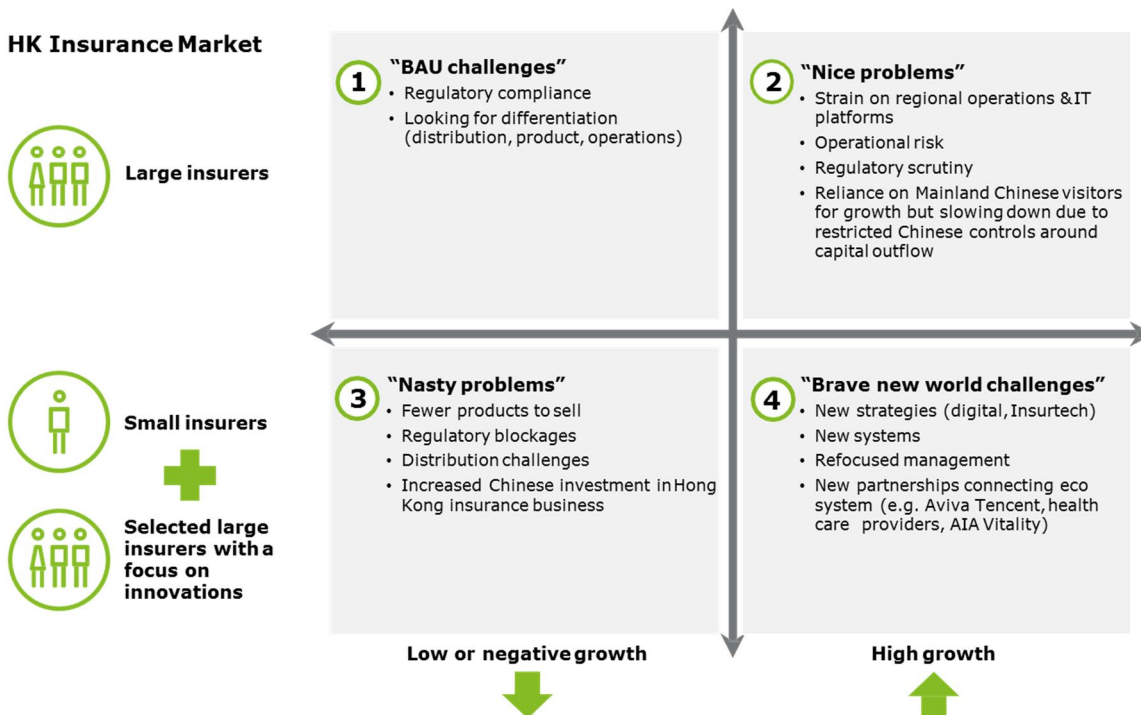
HR may also become an "employer" of RPA for processes that are repetitive and highly manual, for example, on-boarding, severance calculations and service delivery. Skills requirements will therefore shift, not only to enable HR to better support the new ecosystem but to function as RPA leaders as well. Finally, with this evolution of work, employee engagement will be redefined. Workers will also be contractors, crowds, and automated solutions in addition to continue to be employees.

The Asian Approach

In Asia, Hong Kong is one of the most active insurance markets. It is expected that the implications of developments in digital technology will increase due to favorable regulatory changes in the next half-decade. Based on Deloitte's point of view, local players are still in varying degrees of operational maturities. Although the life sector is likely to lead the market in Asia, the general insurance (GI) and health sectors still have room for improvement, especially in the Group space.

According to our analysis, the competitive landscape in Hong Kong can be generally categorized into "4 types of insurers" – each with different challenges and opportunities. These can be categorized as (1) Business-as-usual (BAU) challenges; (2) Nice problems; (3) Nasty problems; and (4) Brave new world challenges. (See more details in Figure 2.)

Figure 2: "4 types of insurers" in Hong Kong



Source: Deloitte Analysis

When focused on the adoption of RPA and virtual operations with the implication of digital technologies, Hong Kong, however, is relatively lagging as compared to some of its regional and mature market counterparts, at

present. Among those early adopters of virtual operations, particularly in the life and health sectors, we have seen their applications of Robotics and Cognitive Automation (RCA) as levers to increase the level of automation and accuracy/prevision, improve customer engagement and generate valuable insights. For example, Chatbot are used more in the new business stage to help customers identify needs and navigate through the product offerings of the insurer.

The city has a total of 159 authorized insurers comprising a mix of multi-national and domestic players as at 30 June 2017. Those insurers contributed a total gross premium of approximately HKD374 billion (USD47.9 billion) and an Annual Growth of around 10.3% in 2015, according to the local regulator Insurance Authority (IA).

Upcoming insurance regulatory changes in Hong Kong, including the newly established IA, the changing role of the Hong Kong Federation of Insurers (HKFI) and the proposed introduction of Voluntary Health Insurance Scheme (VHIS) in the second half of 2018, will continue to fuel the momentum of this mature yet fully sophisticated insurance marketplace in Asia.

The IA officially replaced the former government unit of Office of the Commissioner of Insurance (OCI) of Hong Kong in June 2017, and will act as a regulator and market enabler to regulate and supervise insurers to promote the general stability of the industry and protect policy holders in Hong Kong. We expect there will be more facilitation in encouraging market development, such as InsurTech development and cross-border collaboration with the mainland China, being led by this independent insurance regulator.

We expect the introduction of VHIS will have influential impacts on insurance operations in five aspects, including network, migration arrangements, business processes and systems, underwriting and pricing, as well as distribution and servicing.

In summary, as a new world of work is upon us, insurers in the global marketplace are increasingly adopting RPA and InsurTech to their operations to capture potential growth opportunities arising from the "digital natives" – millennials. Hong Kong insurance players need to embrace the emerging technology trend to connect to a broader talent strategy, while changing their operating models to maximize value.

"Our market observations tell us that legacy issues, leadership mindsets/ corporate cultures and to some extent, regulatory constraints, are the key hurdles for change in most leading companies."

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