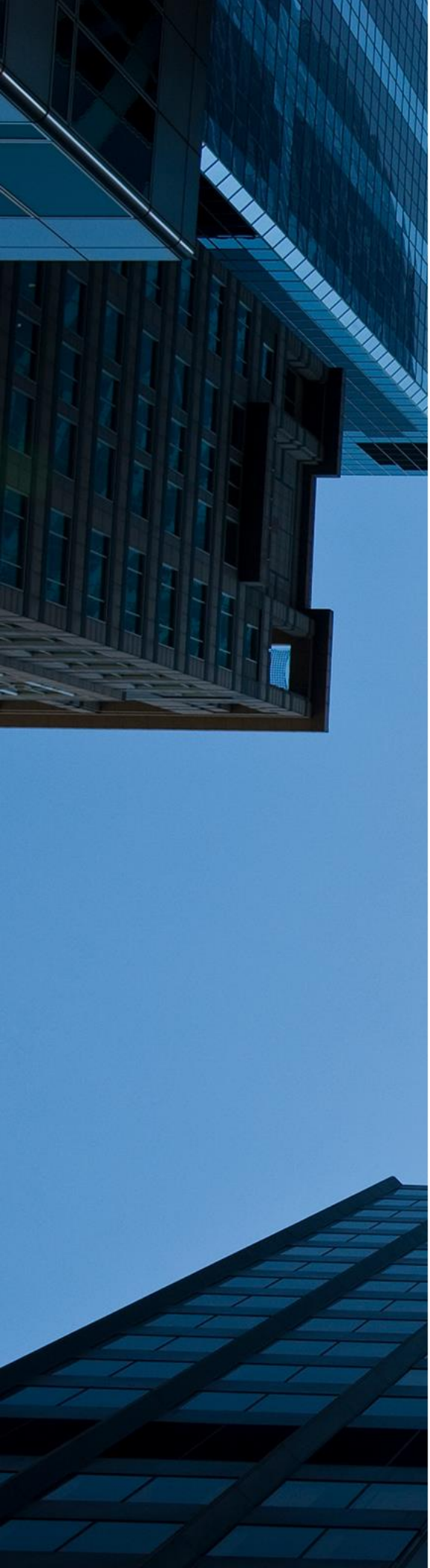

Aite Novarica

NOVEMBER 2022

REDESIGNING THE LIFE INSURANCE JOURNEY

HUMAN-CENTERED DESIGN FOR COMPLEX CHALLENGES

PREPARED FOR:

SAPIENS

NOVEMBER 2022

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EXECUTIVE SUMMARY

Historically, life insurance operations relied on monolithic administration systems to control and service *policies*: It was the policies that were at the heart of life insurance, not the different customer audiences. While crucial to ensuring life insurance companies were able to fulfill the promises they made, these legacy administration systems presented a significant challenge for their companies: How do life insurance companies obtain value from technology upgrades to these systems while meeting the real and perceived needs of their critical customer audiences?

The key findings from this report follow:

- Human-centered design is not an alternative to traditional engineering or technological systems-design processes. Instead, it is a problem-solving process that enables organizations to identify, analyze, and solve challenges inherent to an operational environment that is volatile, uncertain, complex, and ambiguous all at the same time.
- CIOs are routinely challenged to solve problems in these environments. Insurance organizations that adopt and embrace the empathy inherent in human-centered design will create a competitive advantage to solve these challenges and problems faced by their customers/audiences.
- Human-centered design allows providers to create the empathetic environment necessary to understand and meet the needs of differing yet crucial audiences (customer groups) while adopting the technology necessary for human-enabled and -supported self-sufficiency.

INTRODUCTION

At its foundation, everything about the life insurance industry is driven by humans—real people. While technological advances in policy administration systems, underwriting workbenches, actuarial models, and claims systems are critical to operational efficiencies and risk management, it is people who are at the heart of this industry.

Human-centered design methodology provides the life insurance industry the ability to solve the complex challenges faced by crucial yet vastly different customers—audiences such as distribution channels, the insured, underwriters, service representatives, and, of course, beneficiaries, just to name a few. Organizations that adopt and embrace the empathy inherent in human-centered design may create a competitive advantage to solve these challenges and the problems faced by their customers.

This white paper discusses the challenges and opportunities in the three phases of human-centered design and how insurers can use this problem-solving methodology to tackle complex challenges.

METHODOLOGY

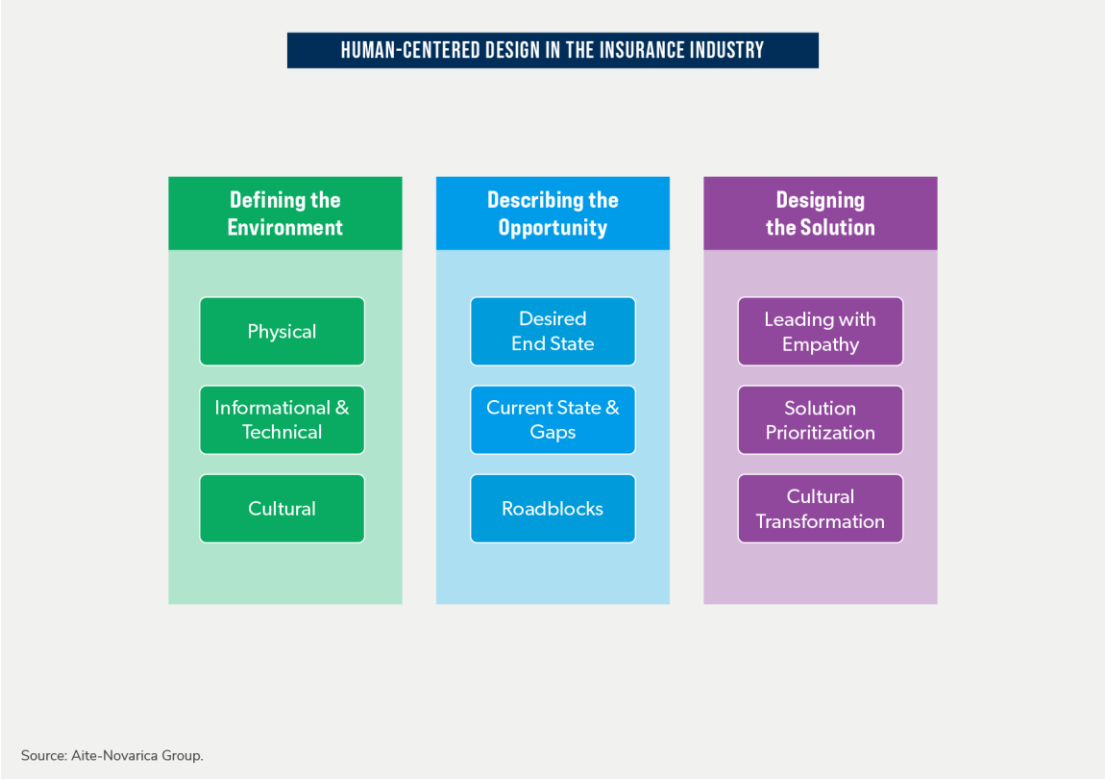
This white paper is sponsored by Sapiens, a global provider of innovative, core end-to-end software solutions and business decision management software for the general, property and casualty, life, pension, and annuities insurance markets. It is based on Aite-Novarica Group's domain expertise and knowledge base, along with secondary research and briefings with industry executives and academia.

HUMAN-CENTERED DESIGN IN THE INSURANCE INDUSTRY

Human-centered design emerged in the late 20th century as a counterbalance to the rapid pace of technological advances. Human-centered design is not an alternative to traditional engineering or technological systems-design processes. Instead, it is a problem-solving process that enables organizations to identify, analyze, and solve challenges inherent to an operational environment that is volatile, uncertain, complex, and ambiguous all at the same time.

Organizations that embrace human-centered design to solve complex challenges embark on a journey that has three primary phases: Defining the environment, Describing the opportunity, and Designing the solution (Figure 1). Design teams use these three phases, and the associated steps, to fully understand the problem at-hand before identifying gaps and exploring solutions.

FIGURE 1: HUMAN-CENTERED DESIGN IN THE INSURANCE INDUSTRY



Source: Aite-Novarica Group.

THE OPERATIONAL CHALLENGE

The information environment has changed dramatically over the past 20 years and continues to evolve at an ever-increasing pace.

While technological advances are influencing change faster and faster, consumers and different audiences remain at the heart of the insurance industry. With the influx of data from new and emerging sources, life insurers are becoming increasingly dependent on innovative methods to leverage the actionable analytics and business intelligence necessary to not only survive in a new paradigm but also thrive. At the same time, consumer expectations and demand have become a seismic catalyst for transformation.

The changes in the information environment have exposed consumers to all levels and types of information that were traditionally only available to insurance industry insiders. As a result of the information and technology explosion, customers are no longer solely reliant on agents or advisors to guide them through the life insurance journey, from sales through claims. These customers expect—in fact, they often demand—new, innovative engagement techniques and tools to satisfy their information appetite.

The organizations that recognize, understand, and plan for the human need of information and engagement will create the internal adaptability and agility necessary to solve for an ever-changing operational environment. Human-centered design begins by first understanding the differing groups of people (audiences) who comprise the operating environment: their needs and wants, how they communicate, how technology can enhance their capabilities, and their cultural expectations (Figure 2).

FIGURE 2: "CUSTOMER" AUDIENCES—CONNECTIONS AND INFORMATION PATHS

Empathy is at the foundation of all human-centered design efforts. Understanding the different audiences is crucial to developing prioritized solutions and driving cultural transformation.

HUMAN-CENTERED DESIGN

The concept of "human-centered design" emerged in the late 20th century as a counterbalance to the rapid pace of technological advances. Human-centered design is not an alternative to traditional engineering or technological systems-design processes. Instead, it is a complementary problem-solving process that uses a holistic approach to enable organizations to identify, analyze, and solve challenges inherent to an operational environment that is volatile, uncertain, complex, and ambiguous all at the same time.

It is almost intuitive that the underlying premise of human-centered design puts people at the heart of all challenges and opportunities, especially in the business world. But the race to technological innovation has often resulted in an unintentional discounting of the

different human audiences involved with, and impacted by, business operations—especially in the insurance industry. Fundamentally, insurance is a transactional relationship based on a promise: A customer agrees to pay a certain price for the guarantee that the insurance company will be there if or when the customer needs it.

Moving Beyond Transactional Relationships

In this transactional model, there are two primary audiences: the customer and the insurance carrier. However, life insurance cannot exist as a simple bidirectional transaction. In addition to the customer (the policyowner or insured) and the insurer (the carrier), numerous audiences are involved with, and impacted by, life insurance agreements: Producers, distribution channels, servicers, underwriters, product developers, customer service representatives, and ultimately policy beneficiaries are all examples of different audiences in the life insurance process that all have differing needs, wants, and expectations.

Each of these differing audiences essentially comprises customers in the life insurance carrier's operational environment. These audiences, and many more, often have conflicting or contradictory needs and expectations in the life insurance sales and servicing processes. Human-centered design is the problem-solving methodology that allows life insurance carriers to use empathy to listen to and identify customers' needs, analyze gaps in the operating environment, and deliver integrated solutions without overengineering the problem or the solution.

Building the Right Team

Unsurprisingly, human-centered design methodology is dependent on diverse teams of people—humans—in order to be successful. Design teams work best when volunteers from the host organization partner with design facilitators for dedicated, focused periods of time. These teams must rapidly move from the forming stage of team building and through the norming and storming stages to get to peak performing stages in as short a period as possible. Design teams focus their efforts on three primary stages in the design process:

- **Defining the environment:** The design team identifies the physical, informational and technical, and cultural aspects of the operating environment.
- **Describing the opportunity:** The design team determines the desired end state or outcome, as well as any roadblocks incumbent in the current state.
- **Designing the solution:** The design team leads with empathy, focuses on cultural transformation, and prioritizes solution opportunities.

PHASE ONE: DEFINING THE ENVIRONMENT

All problem-solving exercises should start with a thorough understanding of the current operational environment, and human-centered design is no different. As with all problem-solving methods, human-centered design begins with a draft problem or challenge that needs to be solved. However, instead of jumping straight into solution development, design teams spend considerable time defining the current operating environment through three viewpoints (Figure 3).

PHYSICAL

The physical view of the operating environment is an unbiased depiction of the "real world" affecting operations. Most important to life insurance carriers are the different audiences and customers involved, how these audiences are connected, and how they are dependent on one another. For example, carriers used to rely on the "kitchen table" approach to selling life insurance: "captured" agents sitting down physically with prospective clients to create relationships. Today and going forward, customer audiences are more interested in the ability to conduct independent research and execute transactions virtually before pursuing an agent/advisor relationship.

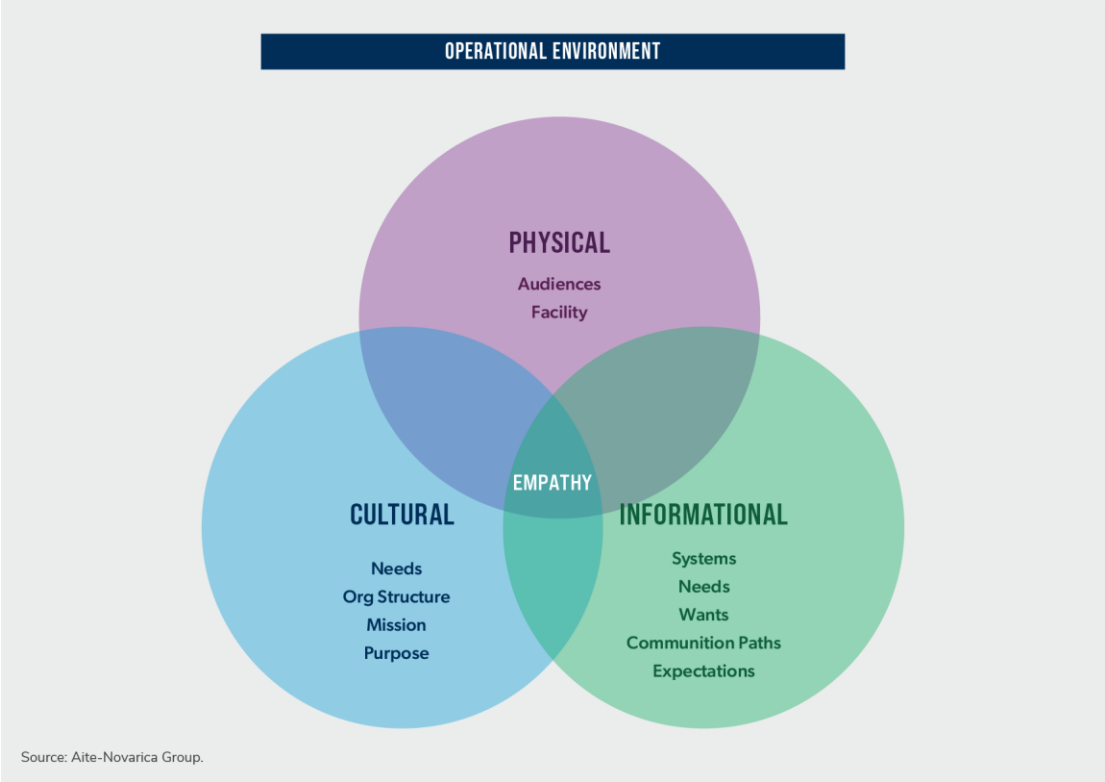
INFORMATIONAL AND TECHNICAL

Once the physical world and audiences are understood, design teams can map the informational and technical aspects of the operating environment, again centering on the different audiences. Design teams must understand the informational needs of these audiences, how information flows between audiences and throughout the environment, and how technology is used to access and leverage this information. Consider the similarities and differences in the information and technical needs of carrier product development teams—actuarial, underwriting, and life insurance customer audiences. All require information about the features, key factors, and potential adaptations (add-ons) for differing life insurance products. However, how these distinct audiences will access this information, what format they need it in, and how they will use it could not be more different. Human-centered design teams must capture these differences as they define the operating environment.

CULTURAL

Leaders cannot overlook the cultural aspects of the operating environment. Cultural aspects may include factors such as changing audience demographics, work/life balance expectations, environmental and social expectations, or even human interaction expectations and preferences. Consumers have these same expectations, and the organizations that understand and solve for these expectations will create a market advantage. Consider the changing demographics of both agents and customer service representatives: As both audiences evolve, their expectations, and our expectations of them, also evolve. By including these factors in the operating environment analysis, design teams can better understand not only how audience needs and expectations are different based on generational differences, but also how these needs and wants are being met—or missed.

FIGURE 3: OPERATIONAL ENVIRONMENT MAP



Source: Aite-Novarica Group.

PHASE TWO: DESCRIBING THE OPPORTUNITY

After developing a thorough understanding of the current operational environment as defined by the three lenses, design teams begin describing the opportunity and ultimately restate the problem or challenge that needs to be solved. Human-centered design teams build from their understanding of the current operating environment to define the desired end state, identify gaps and roadblocks preventing an organization from achieving its desired outcomes, and develop an integrated set of solutions.

DESIRED END STATE

While the first stage of human-centered design focuses on the current operating environment, the second stage—describing the opportunity—jumps forward to the end: What is the desired end state of this process? What does a successful outcome look like? How will the different audiences interact, and how will the solutions solve for or alleviate the differing needs and wants? As with the depiction of the current environment, this view of the end state should consider physical, informational and technical, and cultural aspects that will be supported by the solution sets. As an example, a desired end state might be a mobile-accessible, compliant ecosystem that is accessible 24/7 and is fully integrated with the core new-business system. Among others, this mobile system will include client, producer, sales support, underwriting, case management, policy documentation, and customer-facing portals and interfaces. All of these must meet the real and perceived needs and wants of all audiences.

CURRENT-STATE GAPS

During this step, design teams identify the gaps in the current state—what they are unable to do or accomplish—that inhibit the organization from achieving the desired end state. Gaps often take the form of a 1-to-N list that the design team collectively prioritizes.

ROADBLOCKS

Once the prioritized list of gaps has been developed, human-centered design teams examine the roadblocks that are preventing the organization from eliminating the operational gaps and achieving the desired end state. Roadblocks are exactly what the name implies: impediments that are blocking the path forward. Roadblocks can take

numerous forms: physical and informational impediments, such as legacy systems that are unable to exchange data; organizational cultural differences; inadequately trained service representatives; or even a lack of common understanding of the operational vision across different internal audiences. Regardless of the type or sensitivities, human-centered design teams must look externally and internally to identify all roadblocks.

PHASE THREE: DESIGNING THE SOLUTION

Coming out of the first two stages, human-centered design teams will have developed a detailed understanding of the current operating environment, the needs and wants of the differing audience groups, the desired end state, and the gaps or roadblocks preventing the end state from being realized. Armed with this knowledge, human-centered design teams are able to develop the solution set necessary to achieve success.

LEADING WITH EMPATHY

Simply put, empathy is the ability to understand and appreciate the wants and needs of the people with whom we have relationships—to include our workmates, customers, and operating environment partners.

Human-centered design is grounded in empathy—in understanding and appreciating that the customers and everyone involved in business operations are people with wants and needs. For example, many insurance companies pay commissions on a repeating cycle: Some pay monthly, and some pay biweekly. However, agents (especially third-party producers) rely on their commissions to meet payroll, cover operating costs, and even feed their own families. Imagine the stress involved with waiting 30 days or more for commission payments. Now consider the customer service or disbursement team stress involved with answering multiple inquiries or dealing with antiquated payment systems that frequently go down.

In this example, the payroll system meets the needs of one audience: the insurance company finance team. However, it fails to identify and meet the needs of multiple critical audiences—particularly the agents and the service team. Digitizing this experience through a human-centered design would involve a design team that includes participants from all affected audiences, including the finance and service teams and even the agents.

CULTURAL TRANSFORMATION

Human-centered design allows leaders to understand organizational culture and how it affects the operational environment. In human-centered design, people matter. By identifying the different audiences in the operational environment, design teams are able to first understand the different, and sometimes competing, needs, wants, and expectations of these audiences, and then develop solutions to meet or address these

needs. Often, design teams will think about cultural solutions as “quick wins” (achievable in less than six months), “midrange wins” (achievable in six to 18 months), and long-term wins (achievable in 18 to 36 months).

Consider the organizational culture of an in-force service team—processing transaction after transaction, working to meet or exceed service-level agreements, often wrestling with multiple administrative systems and technology platforms, often without understanding why they are doing tasks the way they are or how what they do fits into the bigger picture. While developing an integrated administrative system is most likely a long-term win, leading a strategic planning session in which the in-force team helps define the organization’s why and how—it’s mission and vision—could be a quick win for organizational culture.

SOLUTION DEVELOPMENT

Potential solutions can be grouped in seven principal categories (Figure 4):

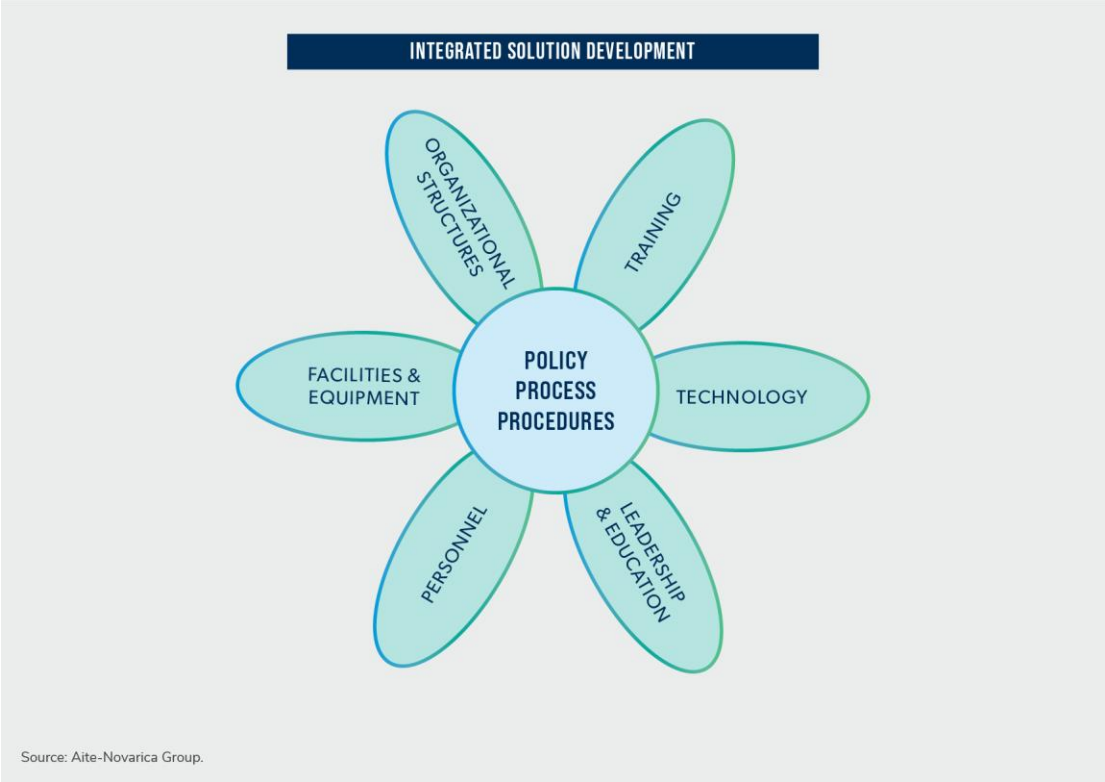
- **Process, procedures, and policy (P3) solutions:** This is the least expensive solution category. Often, operational challenges can be solved by designing or adapting operational processes or procedures, or by adopting organizational policies that are in line with regulatory and financial requirements. Most often, P3 solutions are adopted in conjunction with training and leader development solutions.
- **Organizational structure:** Changes to organizational structures can also be inexpensive solutions, but they are not without their own risks. How often have organizations seen new leaders immediately put in place a new reporting structure or organizational change? Human-centered design takes this into consideration when developing solution recommendations, which is why organizational structure changes are often combined with personnel and leader development and training solutions.
- **Training:** The most fundamental, and too often overlooked, solution is training. Because human-centered design focuses on different audiences and the people in them, training opportunities are some of the first solutions to be adopted. Training opportunities can support leaders, service teams, agents, and even clients and customers. They are frequently combined with all other solution categories.

- **Facilities:** Both the global pandemic and the return-to-office movement have demonstrated how the right facilities and work environment impact organizational culture, team dynamics, and team morale. Facility solutions can be as simple as stand-up desks or as complex as a redesigned physical call center. Facility solutions also have a direct effect on operational efficiencies and are often deployed in conjunction with personnel and training solutions.
- **Leader development:** The importance of leader development, education, and training (LDE&T) solutions cannot be overstated. The greatest team, system, and operational environment can be destroyed in a matter of days or weeks if a leader is not properly trained, educated, developed, and mentored. Human-centered design focuses on leaders and their teams: how the leader drives organizational culture and how the teams interact. LDE&T solutions are never developed in isolation.
- **Technology:** The solution category with the longest potential impact for organizations is technology. The entire industry is familiar with both the development and the long-term operating costs associated with the development, deployment, and maintenance of administrative systems or customer service software. However, not all technology solutions are as big or complex as policy admin systems. Technology solutions provide organizations the greatest potential to deliver tangible results—solutions that can be readily seen and touched—to multiple audiences, both internal teams and external customers. Consumers today expect to interact with technology that not only meets their needs now but will also transform and adapt to changing needs. While a technology solution could very well be a multi-year core system replacement, it could also be the adoption of a new messaging/chat system for internal communication or external engagement with customers. Design teams have to consider not just deployment and maintenance costs but also returns on investment when determining the potential impact of technology solutions. Not surprisingly, technology solutions are never deployed alone: They will always be accompanied by training and process/policy/procedure solutions at a minimum.
- **Personnel:** Personnel solutions are often viewed as the hardest solutions to gain approval for in an era of reducing operating costs. Despite having a tremendous potential impact on operations, they come with a significant budget impact that may be long term. Personnel solutions might include options such as partnering with a local community college in an internship program in which teams can bring on part-

time employees (student interns) as underwriting or processing assistants to offload manual or mundane tasks and free up expensive talent. Organizations could bring on employees in cross-organizational, cross-functional teams to provide matrixed support to multiple teams with similar needs, such as actuarial, product development, accounting, and operational management teams, which all need statistical analytic support. Organizations probably don't need one or more full-time employees per team.

In human-centered design, only after all other potential solution categories have been exhausted are personnel solutions considered to solve identified challenges. As with the other six categories, personnel solutions cannot be considered in isolation and are most often paired with training, organizational structure, and P3 solutions.

FIGURE 4: INTEGRATED SOLUTION DEVELOPMENT



Source: Aite-Novarica Group.

Solution Prioritization

There are only three ways to create value in insurance: sell more, manage risk better, and lower operational costs. While technology is behind all three, it cannot be deployed to solve all operational or organizational challenges, nor can it be used to meet all audience needs. Human-centered design teams will use a holistic approach to prioritize potential solutions, but they must understand that insurance companies will make decisions based on how best to maximize the value from the interactive leveraging of the three levers, especially when managing risk. In some cases, solutions can be applied to solve or partially remedy multiple challenges. The design team considers the overall impact of each solution when making its prioritization recommendations.

Human-centered design teams prioritize all potential solutions based on the greatest impact each will have on solving gaps and challenges. It is this interwoven system of solutions, focusing on each audience and the humans' needs and wants, that' allows design teams to solve complex problems and drive cultural transformation.

CONCLUSION

- Human-centered design is a problem-solving process that enables organizations to identify, analyze, and solve challenges inherent to an operational environment that is volatile, uncertain, complex, and ambiguous all at the same time.
- Different audience or customer groups are at the heart of human-centered design. Understanding the people who comprise these different audiences, and their wants and needs, is critical to successful design efforts.
- Human-centered design teams are most successful when composed of representatives from all involved audiences.
- Human-centered design efforts proceed in three distinct phases: defining the environment, describing the opportunity, and designing the solution.
- Human-centered design teams develop solutions in seven principal categories: P3 solutions, organizational structure, training, facilities, leader development, technology, and personnel.
- Design teams prioritize solutions based on the greatest impact that solutions—or solution sets—have on the needs, wants, and wishes of differing audiences.

ABOUT AITE-NOVARICA GROUP

Aite-Novarica Group is an advisory firm providing mission-critical insights on technology, regulations, strategy, and operations to hundreds of banks, insurers, payments providers, and investment firms—as well as the technology and service providers that support them. Comprising former senior technology, strategy, and operations executives as well as experienced researchers and consultants, our experts provide actionable advice to our client base, leveraging deep insights developed via our extensive network of clients and other industry contacts.

CONTACT

Research and consulting services:
Aite-Novarica Group Sales
+1.617.338.6050
sales@aite-novarica.com

Press and conference inquiries:
Aite-Novarica Group PR
+1.617.398.5048
pr@aite-novarica.com

For all other inquiries, contact:
info@aite-novarica.com

Global headquarters:
6 Liberty Square #2779
Boston, MA 02109
www.aite-novarica.com

AUTHOR INFORMATION

Chip Bircher
+1.913.240.4333
cbircher@aite-novarica.com