



STRATEGY MEETS ACTION

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## **The Drive to Digitization in Insurance:**

*Turning "Big Paper" into Big Profit*

**A Sponsored SMA White Paper**

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**About This White Paper**

This white paper is based on a Paper to Digital in Insurance survey conducted by SMA in partnership with Tech Decisions. The sponsors have paid for distribution rights, and have not influenced the survey, data or analysis. The content is a synopsis of SMA's analysis and insights.

## Table of Contents

<b>"Big Paper" is a Big Deal in Insurance</b>	<b>3</b>
<i>Big Paper: It's as Important as Big Data</i>	
<i>Delivering Business Value through Digitization</i>	
<i>Delivering a Digital Customer Experience</i>	
<b>The State of Paper In Insurance</b>	<b>4</b>
<i>In with the New: The State of Digital Capture</i>	
<i>Out with the Fold: Making the Transition to E-Delivery</i>	
<b>Making Digital Transformation a Reality</b>	<b>9</b>
<i>Capturing More Electronically</i>	
<i>Building a Digital Creation and E-Delivery Environment</i>	
<i>Transforming Relationships and Processes with Digitization</i>	
<b>Conclusion</b>	<b>11</b>
<b>About Strategy Meets Action</b>	<b>11</b>
<b>About the White Paper Sponsors</b>	<b>12</b>

The content of this SMA White Paper is based on a study conducted in the fourth quarter of 2011 by SMA in partnership with Tech Decisions. Initial survey findings were presented in a November 2011 Tech Decisions webinar that was sponsored by Pitney Bowes Software. This white paper provides additional insights and identifies key opportunities for insurers striving to capitalize on the paper to digital transformation. Pitney Bowes Software, Kofax, and OPEX are sponsoring this white paper and have purchased full distribution rights.





## Big Paper is a Big Deal in Insurance

### Big Paper: It's as Important as Big Data

Insurers are abuzz with the potential for future competitive advantage through “big data” and analytics. Meanwhile, huge opportunities exist in what might be called “big paper.” The idea of digitizing paper documents and providing e-delivery options for customer communications may not sound as exciting as big data, but very high business value makes big paper worthy of attention and investment. Most insurers have been scanning documents and capturing data for many years, but in reality, vast amounts of paper continue to flow in and out of an insurance company. As we look out into the competitive landscape and understand the emerging customer expectations, there are significant new opportunities to transform paper documents of all types into digital formats – yielding major improvements in business optimization and the customer experience.

To gain a deeper understanding of these new opportunities for business value, SMA conducted an extensive survey of insurers. This industry research on the transition from paper to digital documents and communications was conducted in partnership with Tech Decisions in the fourth quarter of 2011. Over 200 insurance company representatives participated; 69% were business leaders and 31% were IT leaders. The respondents included a representative mix of lines of business and company sizes.

The survey results provide key insights on the current state and future plans for digitization of inbound and outbound documents, including those in archival storage. The primary hypotheses of the study were confirmed:

- Enormous potential still exists for the digitization of content in the insurance industry.
- Insurers are investing in improving their capabilities in the areas of digital capture, digital creation, and e-delivery.
- Digitization initiatives are supporting business optimization and growth plans, especially when integrated with BPM, core systems, CCM, and other initiatives.

Bottom line – big paper is a big deal.

### Delivering Business Value through Digitization

Despite years of automation and new technology initiatives, insurers must still deal with huge volumes of physical documents – paper, faxes, checks, cards, and envelopes. Real progress has been made across the industry in the ability to digitally capture documents and deliver them electronically. But, the fact is that significant opportunities still exist for most insurers. A typical mid-sized insurer creates and receives millions of paper documents each year. And large insurers must manage hundreds of millions of documents annually. In fact, one of the largest US insurers has over three million *boxes* of archived paper documents<sup>1</sup>.

The high volumes of paper weigh heavily on efforts to improve the efficiency of daily workflows and the effectiveness of operations throughout the organization. They contribute to additional expense, are often the root of errors in transcription and filing,

<sup>1</sup> Interview with a top 10 North American insurer. (2011). SMA Research.

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The primary justification for imaging and scanning projects has traditionally been cost savings. Insurers are shifting their focus regarding the purpose of digitization investments to business optimization.

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and frequently cause delays in sales and service. The primary justification for imaging and scanning projects has traditionally been cost savings. SMA research shows that insurers are shifting their focus regarding the purpose of digitization investments from cost savings to business optimization, joining advanced technologies like enterprise capture and content management with workflow and business process management projects. The new emphasis on digitization is aimed at creating a more agile, responsive organization – at shaping an environment for growth. Document digitization is of critical importance to insurers in two key dimensions. Digitization gives insurers the ability to provide faster and more accurate responses to prospects and customers. But it goes beyond efficiency. With digitized information, captured at the point of origination and driven into business processes, insights are enriched, enabling insurers to deliver more value in a more profitable mode.

Tackling “big paper” will give insurers the muscle to gain maximum benefit from the tremendous potential in the newest source of competitive advantage – “big data” and analytics. The key is to employ digital capture as early in the process as possible, combined with the ability to extract data elements from images, e-mails, and other unstructured data.

## Delivering a Digital Customer Experience

Policyholders are beginning to demand that some or all of their documents be delivered electronically. Legal restrictions regarding signatures and the need to keep paper copies of applications, policy documents, and customer correspondence have been significantly reduced over the past decade. And, the technology barriers to capturing customer input digitally and delivering customer documents electronically have also been overcome. The final obstacle to full digital document exchange is customer preference. Some policyholders still want paper copies of their documents, but the percentage demanding electronic communications continues to increase.

Insurers have a variety of new opportunities for transforming the user experience by digitizing documents and other unstructured information. While key opportunities exist across all parts of the insurance value chain, many insurers are making certain that they capitalize on digitization to address all customer touch points. The ability to capture and manage additional information, to ‘see’ a complete picture of their relationship with a customer, and to better understand individual preferences and behaviors puts insurers a step ahead of the competition – positioning them to effectively leverage emerging technologies such as mobile, social media, and cloud computing. Leaders that aggressively work to digitize all of their information will be better positioned to improve not just the customer experience but also both top and bottom lines.

## The State of Paper in Insurance

### In with the New: The State of Digital Capture

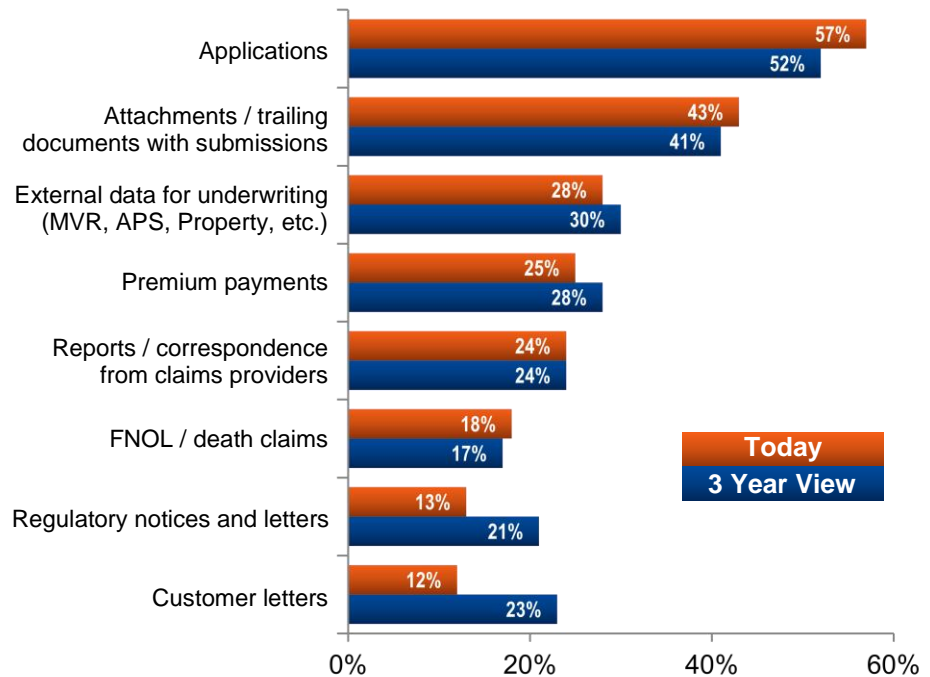
Paper and information flows into, through, and out of the insurance enterprise via a complex web of channels, devices, systems, and people. Inbound paper consists of many formats including letters and forms, faxes, cards, envelopes, and checks. The content may represent application submissions, requests for product information, customer



service request letters, first notice of loss reports and many other types of business documents.

Insurers say that the highest level of digitization for inbound paper documents currently exists in areas that support the new business/underwriting processes. The survey results show that applications, trailing documents, and external information for underwriting currently have the highest level of electronic input among all types of documents. These same areas will continue to be the top areas of focus for insurers over the coming three-year period.

Figure 1. Highest Degree of Digitization for Inbound Documents (2012-2014)



Source: SMA Research, Paper to Digital 2012, n=210

As shown in Figure 1, 57% of insurers say that applications have a very high degree of digitization – the number one area for the digitization of incoming documents. This will continue to be the number one area for future digitization as well, with 52% of insurers naming applications as a high focus area for digitization through 2014. The documents that are related to the submission of applications and the supplemental information that is required by underwriting rank as the number two and three areas for digitization in 2012 and beyond. Investments in these areas support insurers’ plans to achieve higher levels of straight-through processing and automated underwriting.

Insurers will increase the use of portals and electronic upload for agents. These efforts will increasingly capture application information electronically. However, insurers still expect huge volumes of paper to be mailed, handled by agents, or faxed over the next few years (especially in commercial lines and life and annuities). This will drive the need for ongoing efforts to increase the amount of information captured digitally.

There are many other important types of documents, such as premium payments and claims documents, that currently have a low level of digitization. There are major

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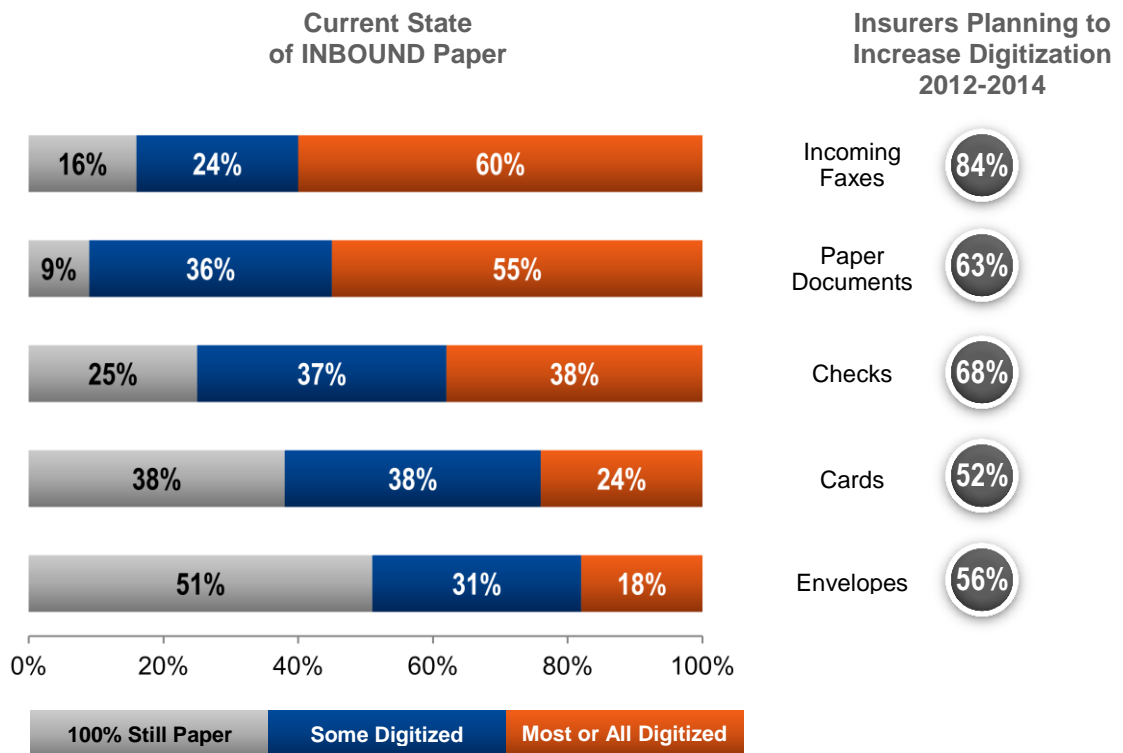
opportunities to increase digitization of documents in these areas over the next few years. Documents such as first notice of loss reports and customer letters have a large impact on customer satisfaction. Claims is an important area where insurers can significantly enhance the digital customer experience.

Figure 1 also reveals that regulatory notices and customer letters are the areas where insurers indicate that they will increase digitization the most over the next three years. Paper volumes in both of these areas are typically very high. The faster insurers are able to digitize this information, the sooner it can contribute to initiatives to improve operational efficiency and effectiveness.

Just as digitization progress varies by area of the business, it also varies by the formats of business documents – paper, faxes, checks, cards, and envelopes. Figure 2 shows steady progress for the industry, with over half of insurers stating that they digitize most or all of their faxes and paper documents. Still, there is more work to be done. A full 84% of insurers plan to increase digitization of faxes over the next three years, and 63% say they will increase digitization of incoming paper. Of note, insurers plan to increase digitization across all five categories of physical documents over the next three years.

With such a high percentage of documents still in paper format, major opportunities exist for digitizing envelopes, cards, and checks. Envelopes and cards often contain valuable customer information that should or must be retained, such as return addresses, responses, and requests for information. In many cases, this information is lost or the paper copies go into the archives, where information becomes virtually inaccessible.

Figure 2. Current State and Future Plans for Inbound Documents by Format



Source: SMA Research, Paper to Digital 2012, n=210



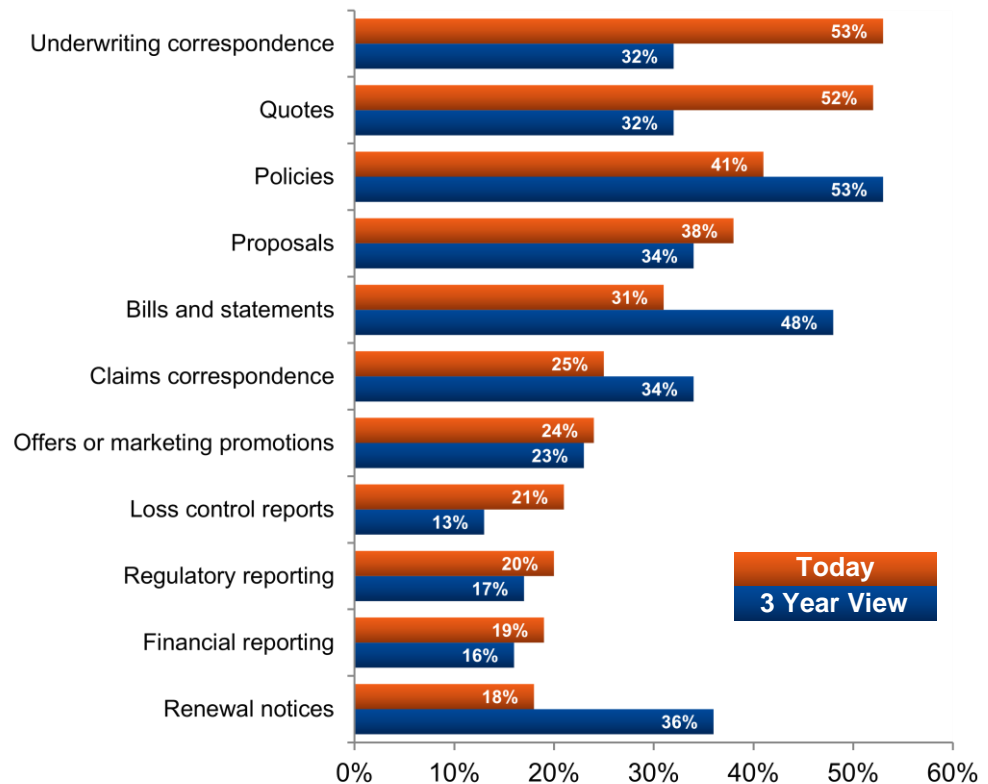
Insurers' plans for investment for the years 2012 through 2014 indicate that bills and statements, renewal notices, and claims correspondence will take on a higher priority, increasing the level of e-delivery for customer service documents.

## Out with the Fold: Managing the Transition to E-delivery

Insurers create and deliver a wide variety of outbound documents to prospects, customers, agents, claims partners, and others. E-delivery of these documents is becoming increasingly important as insurers look to increase speed to market, cut costs, and improve relationships with all of these parties. In short, they are striving to enhance the digital customer experience. Many of the documents that are sent out by insurers – proposals, policies, and welcome kits – are lengthy and go out in large volumes. Quotations, bills, and identification cards, may be just a page or two, but are frequently created and distributed using existing high volume batch operations.

Findings from the survey indicate that the focus for e-delivery is shifting from sales to service (Figure 3). Insurers report that the highest level of digitization today involves documents for the sales and new business/underwriting processes. However, insurers' plans for investment for the years 2012-2014 indicate that bills and statements, renewal notices, and claims correspondence will take on a higher priority, increasing the level of e-delivery for customer service documents.

Figure 3. Highest Degree of Digitization for Outbound Documents (2012-2014)



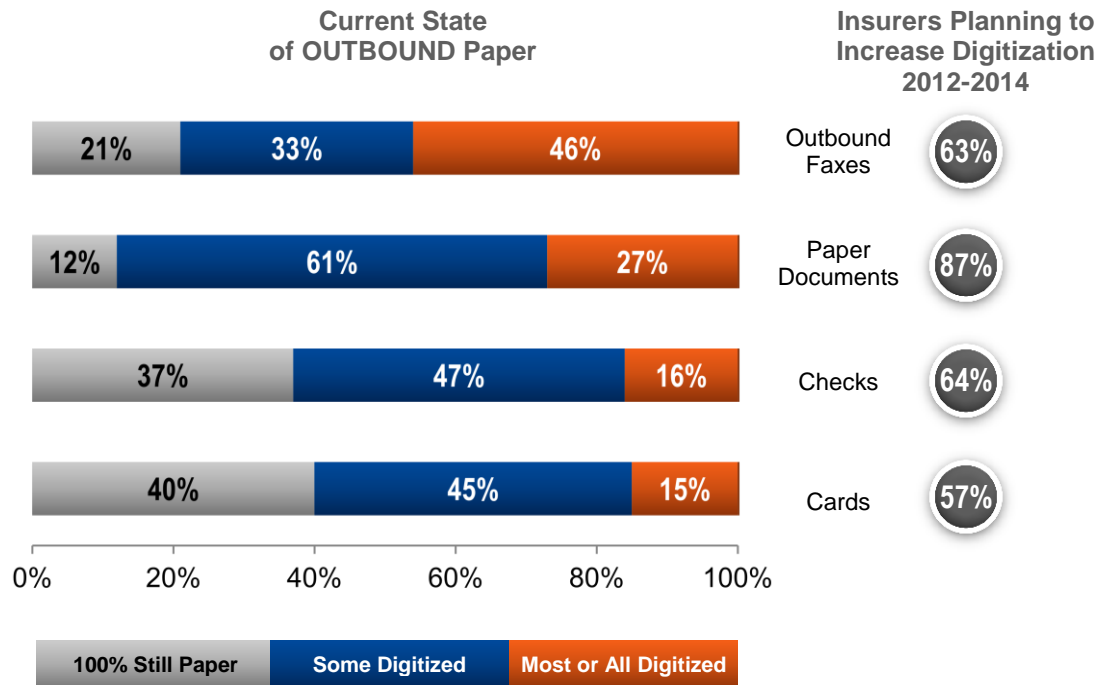
Source: SMA Research, Paper to Digital 2012, n=210

Although insurers still have a long way to go to capitalize on the benefits of converting outbound documents of all types to electronic form, progress is being made. Opportunities related to outbound paper, checks, cards, and faxes are getting serious



consideration (see Figure 4). Surprisingly, 37% of insurers state that all of their outbound checks are still physical, paper checks. Most insurers continue to send cards out via mail, and that will only change gradually because many of those are business reply cards related to marketing campaigns. One in five insurers (21%) still sends all of their faxes via traditional fax machines. Still, over the next three years, insurers plan to significantly increase e-delivery for all document formats.

Figure 4. Current State and Future Plans for Outbound Documents by Format



Source: SMA Research, Paper to Digital 2012, n=210

For outbound documents and customer communications, printing and mailing documents is still the predominant delivery method. While many insurers have implemented solutions to bring information into the enterprise in digital formats, fewer have emphasized digitization for outbound documents. Now, changing customer demands coupled with the explosion of mobile devices and the trends in social media are causing many insurers to increase their focus on e-delivery.

In addition to inbound and outbound documents, insurers have massive volumes of paper-based documents that sit on desktops, in briefcases, and in filing cabinets, as well as in offsite storage/retention facilities. Insurers have been reluctant to “back-scan” or digitize many of these documents due to the costs involved, but new options are now available that make it feasible and cost-effective to rapidly digitize high volumes of documents. Archived documents that are newly digitized become easily accessible and available for use in claims investigations, for legal and regulatory purposes, and in the augmentation of customer relationship management, to name a few.





## Making Digital Transformation a Reality

Insurers should be rethinking how they evaluate and approach digitization investments. Gone are the days of standalone digitization projects simply for the sake of reducing paper. Here to stay are digitization plans that are integrated into business projects that will transform new business/underwriting, improve customer service, and enhance claim operations. The new breed of projects adds digitization of unstructured data to all solutions – whether they are directed at business process management, analytics, mobile technologies, and/or business applications.

Statistics on what insurers are doing today and polls on what insurers are planning to do provide useful insight for peer analysis and development of strategies. But, the real question is what should insurers be doing to make the digital transformation a reality for their organizations? Where should the drive for digitization start? The answer is to focus on *more* – to employ pragmatic approaches for capturing *more* information electronically via straight-through processing, creating *more* information digitally, and delivering *more* information electronically. It means making digitization an organizational priority by integrating it into the IT roadmap, thereby ensuring it is considered in the plans for every project.

### Capturing More Electronically

Digital capture technologies for paper-based documents are relatively mature. Sophisticated hardware and software is pervasive. Digital transformation for inbound information becomes a reality when insurers take full advantage of digital capture solutions, workflow and BPM software, and enterprise content management (ECM) systems. Insurers that capture more electronically at the front end of business processes, will realize the full power of digitization when these capabilities are all conjoined – capture, workflow/BPM, and ECM. Digital capture is optimized when the document is captured as early as possible in the process, related documents are electronically grouped, key information is extracted from the documents, and software classifies and indexes each document. When these capture capabilities are integrated with workflow, BPM, and ECM systems, and all are tied to the underlying core systems, the full business value of digital transformation is achieved.

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### Building a Digital Creation and E-Delivery Environment

Insurers with aspirations of providing the digital customer experience need to start by evaluating their existing tools and approaches for creating and managing documents and communications for customers. In many cases, the base documents such as policies, bills, and renewal letters are churned out by the core policy administration and billing systems. Marketing, sales, underwriting, claims, and customer service departments produce a myriad of other customer correspondence. Enlightened insurers are taking advantage of customer communications management (CCM) to improve their customer correspondence across the enterprise. Insurers should leverage these advanced CCM capabilities to create appealing, consistent, and effective communications for every document that touches the customer. The ability to track and manage the delivery of



Leading insurers are moving to the next level by applying analytics to customer interactions that give them the ability to further personalize and improve the customer experience.

these communications in accordance with customer delivery preferences provides additional value to the customer and the insurer.

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## Transforming Relationships and Processes with Digitization

Insurers are capitalizing on the digitization concepts and capabilities discussed in this paper to enable the transformation of key business processes. Vignettes from three perspectives serve to illustrate the potential and the business value of digitization. All of these scenarios are possible with technology solutions that are available today.

- **Policyholder perspective** – The future policyholder will have the option of never seeing a piece of paper, if that is their preference. Whether getting quotes, applying for insurance, paying premiums, or making policy changes, all inbound and outbound communication with the insurer can be conducted electronically – even where signatures are required.
- **Agent/broker perspective** – Agents and brokers have the capabilities today to turn every document and every piece of paper into an image that can be ingested by insurer systems. The sales and new business/underwriting processes will be significantly streamlined when more information is entered directly via a portal and the remaining paper based forms are all digitally captured, data is automatically extracted, and agents have the tools to easily create personalized correspondence for their prospects and customers.
- **Insurer perspective** – Insurers can offer full electronic interaction with prospects, customers, and agents/brokers. Digitizing all papers, faxes, cards, checks, and envelopes will not only transform processes across the value chain; it will also enable more rapid information access and more data for analytics.



## Conclusion

In a world where digital content and communications are being applied to every aspect of business and society, an abundance of paper is still readily apparent everywhere you look. The dream of the paperless society is still decades away. In the meantime, for insurers there are big opportunities in tackling big paper. Tremendous progress has been made by the industry in the digital capture of inbound documents, but the fact is that huge opportunity remains. Sophisticated software is currently available to create and manage digital communications, but many insurers find it difficult to capitalize on the potential advantages because they lack a unified strategy and tool set that is integrated across the enterprise. E-delivery, while still in its infancy in the insurance industry, is steadily growing in importance as insurers recognize the influencing role it plays in keeping customers happy and engaged.

The exciting news is that the transformation from paper to digital turns the page to open the next chapter about creating business advantage. Digitization technologies are mature, continually improving, and ready to deliver benefits that help today's operations as well as position the organization for successful growth. The most competitive insurers are increasingly winning because of speed, agility, and insights. The power to enhance business processes, improve speed-to-market, create an agile organization, and develop new insights all depends on information – information in digital form. The success or failure in managing 'big paper' will be a primary determinant in separating the winners from the losers in the coming years. The insurers that are able to deploy an enterprise-wide strategy for the capture, creation, management, and delivery of digital information will be a big step ahead of their competitors, and will emerge as leaders in the digital future.



## About Strategy Meets Action

Exclusively serving the insurance industry, Strategy Meets Action (SMA) blends unbiased research findings with expertise and experience to deliver business and technology insights, research, and advice to insurance companies and IT solution providers. By leveraging best practices from both the management consulting and research advisory disciplines, SMA's services are actionable, business-driven, and research-based – where strategy meets action – enabling companies to achieve business success.

This white paper is based on SMA's experience, research, and insights. This study was done in partnership with Tech Decisions. Pitney Bowes Software, Kofax, and OPEX have paid for distribution rights, and have not influenced the survey, data or analysis. The content is a synopsis of SMA's analysis and insights.

Additional information on SMA can be found at [www.strategymeetsaction.com](http://www.strategymeetsaction.com).

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## About the White Paper Sponsors

### Pitney Bowes Software

Pitney Bowes Software Inc. is a software and services company that provides solutions to help organizations acquire, serve and grow relationships with their customers. These solutions enable lifetime customer relationships by integrating data management, location intelligence, sophisticated predictive analytics, rules-based decision making and cross-channel customer interaction management to increase the value of every customer communication while also delivering operational efficiencies.

Leading insurance carriers look to Pitney Bowes Software for:

- Customer segmentation and profiling capabilities to help predict behavior, anticipate needs and identify relevant offers for cross-sell and up-sell opportunities
- Customer communications that create a multi-channel branded experience to help generate customer loyalty and retention
- Rich customer data that improves accuracy, completeness and consistency across the enterprise
- Geo-coding analysis and services designed to identify and mitigate loss exposure.

### Kofax

Kofax is a leading provider of capture enabled business process management (BPM) solutions. For 25 years, Kofax has provided award winning solutions that manage the capture and streamline the flow of business critical information throughout an organization in a more accurate, timely and cost effective manner. These solutions provide a rapid return on investment to thousands of customers in banking, insurance, government, business process outsourcing and other markets. Kofax delivers these solutions through its own sales and service organizations, and a global network of more than 800 authorized partners in more than 70 countries throughout the Americas, EMEA and Asia Pacific. For more information, visit [www.kofax.com](http://www.kofax.com).

### OPEX

It is possible to eliminate processing steps, reduce cycle times and improve the overall quality of your paper digitization process. A solution that combines OPEX scanning hardware with leading software technologies will allow you to image at the "first touch" in the process. Since 1973, OPEX systems have provided performance-enhancing workflow solutions and cost effective results to thousands of organizations worldwide. OPEX systems are installed in financial services, healthcare and insurance marketplaces around the world. For more information, visit [www.opex.com](http://www.opex.com).

