3 Risks Facing the Insurance Industry

& How Technology Can Mitigate the Impact

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Over the past few years, the Insurance sector has been no stranger to change. Like every other business segment, operations and technology leaders faced accelerated pressures to quickly evolve their operations — hybrid work environments, increased customer expectations for digital interactions, and shifting, unpredictable market dynamics… to name a few.

For an industry that has traditionally been slower to transform, keeping pace has been a challenge and it's opened the doors to increased risk across every area of the business. This includes the opportunity risk posed by disruptive tech startups, often doubling as valued partners and would-be competitors with the potential to steal revenue in an increasingly digital world.

According to a recent report from PwC, the greatest threat for insurers today is often their level of commitment (or lack thereof) to the transformation efforts that will move the needle over the long term. While many insurers have worked to accelerate digitization either through partnerships with insurtechs or through in-house transformation efforts, much work remains.

> "Companies that continue to work from three to five year timelines that are vague and lack strategic focus are likely to lose market share and perhaps even wind up as someone else's acquisition."[1]
>
> \- PwC

It's impossible to put that work in perspective without discussing the unique risks facing the insurance industry that threaten business continuity and consistent revenue growth. Some of the most common risks our clients are grappling with today include:

1. Cybersecurity threats
2. Insurance fraud
3. Client attrition

On the following pages, we'll examine each risk area in more detail and discuss ways insurers can get ahead of these threats through the strategic use of technology and application of the data they're already collecting.

[1] PwC, Next in insurance: Top insurance industry issues in 2022

Risk #1: Cybersecurity

It's no secret that companies in the banking and insurance space are prime targets for cybersecurity attacks. Cyber criminals know these organizations can afford to pay high ransoms — and they go after them accordingly. In many cases, insurers would rather pay the ransom than invest the time, resources and exposure involved with managing the effects of an attack.

82% of the largest insurance carriers are the focus of ransomware attacks from cyber criminals. In fact, the largest ransom paid to date by an insurance company totaled $40 million, with the average ransom coming in at $130,000.[2]

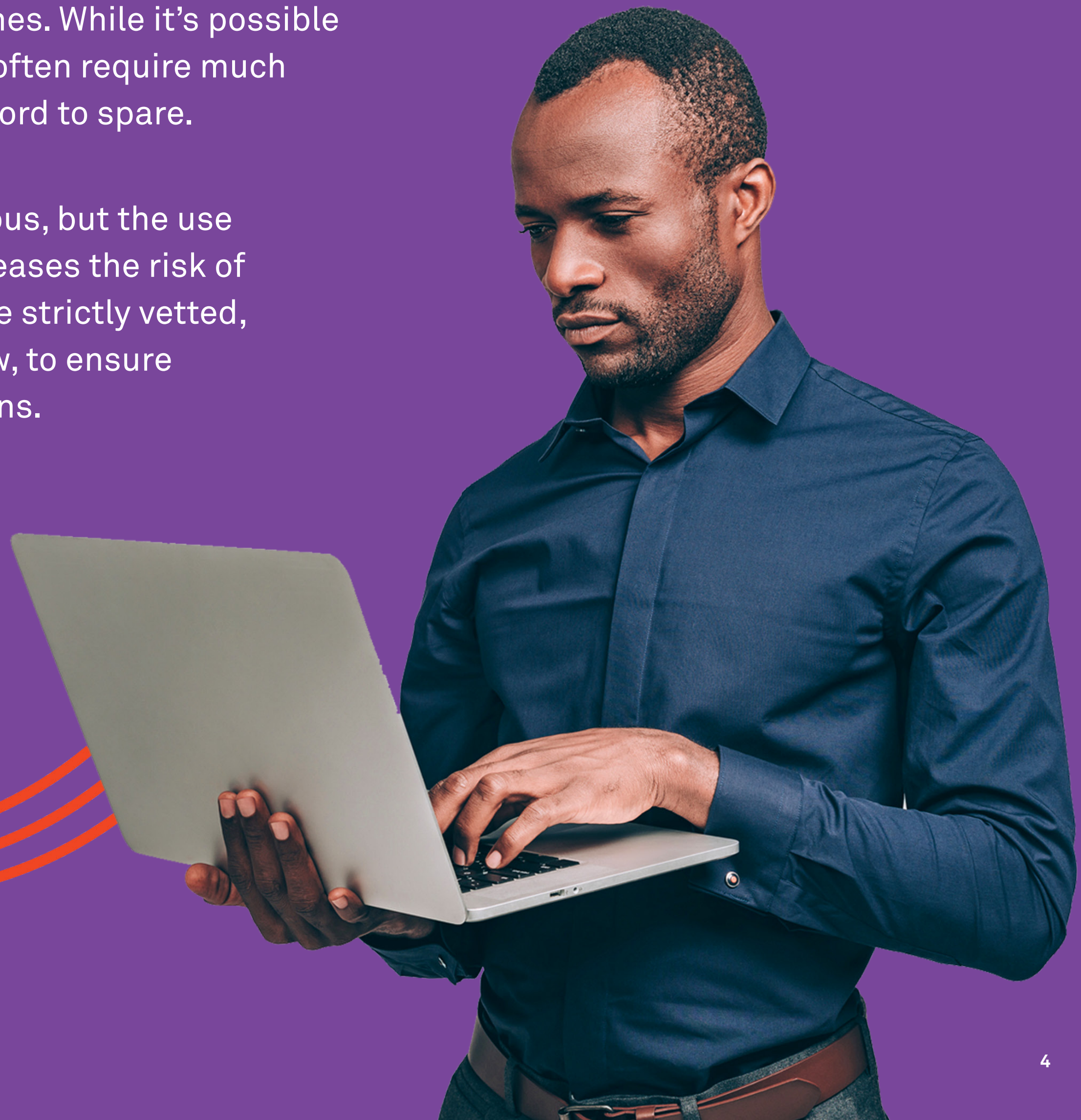
[2] Black Kite, A Fight for Coverage: Cyber Insurance Risk in 2022, April 2022

Cybersecurity threats within the insurance sector originate from various sources, some of which include:

LEGACY SYSTEMS & INFRASTRUCTURE: These make it more challenging to fully upgrade systems with required security patches. While it's possible to keep your infrastructure secured, legacy systems often require much more time, focus and resources than insurers can afford to spare.

IOT & CLOUD-BASED APPLICATIONS: It may be obvious, but the use of insurtechs and other internet-based services increases the risk of exposure. Any potential providers or partners must be strictly vetted, and should be subject to a third-party security review, to ensure users always have access to compliant storage options.

REMOTE & HYBRID WORKFORCES: With employees "working from anywhere," strict protocols and proper employee and manager training must be in place to ensure the safety of the systems, tools and technology employees need to do their jobs.



The Finance & Insurance industries have the highest potential for long-term remote work models, since 75% of workers' time is spent on activities that can be done from anywhere — without a loss of productivity.[3]

Technology to mitigate cybersecurity risk

Experts agree that cyberattacks, for most organizations, are not a matter of "if" but "when." However, it's not all doom and gloom. Cybersecurity incidents are never just about the hack itself — but rather, the delicate interplay of everything that happens within an insurer's IT stack before, during and after a ransomware event. When insurers have the right technology in place and the knowledge of what to look out for, they are in the best possible position to mitigate ransomware attacks — and minimize the impact of incidents when they do occur.

While the "right" technology may look different at each organization, we focus on six key areas at Ricoh in which building a flexible tech stack can yield cyber-protective benefits for insurers.

[3] McKinsey & Company, What's Next for Remote Work, November 2020

6 focus areas for building your cybersecurity tech stack

1. **EMPLOYEE TRAINING & AWARENESS:** This is the first step to protecting your organization and is typically accomplished through a combination of learning approaches which may include personalized learning paths, real-life user and business scenarios, bite-sized video tips and tricks, instructor-led training and more — to ensure all employees understand their responsibilities and rules of engagement.

2. **CLOUD SECURITY:** For most organizations, cloud security at the user level is usually administered through MS Office 365. But it's crucial to have a full suite of security measures in place that includes multi-factor authentication (MFA), mobile device management (MDM) and email encryption.

3. **SECURITY FILTERING:** Technology that helps ensure only the right users have access to information is an absolute requirement for insurers and available through various vendor partners.

4. **ENDPOINT PROTECTION:** Endpoint security helps to keep endpoints or entry points of end-user devices such as desktops, laptops, and mobile devices from being exploited by malicious actors and campaigns. This can be done on a network or in the cloud.

5. **BREACH DETECTION & RESPONSE:** This software provides an organization with the ability to respond immediately and isolate the endpoints when ransomware activity is detected.

6. **BACKUPS:** Using technology to back up your MS 365 environment, employee workstations and servers is a key step for containing the impact of attacks.

Keep in mind, too: insurers who write cyber insurance policies face the same types of security challenges — even if indirectly — for their insured. Understanding what to look for and how to guide your clients in building their cybersecurity stack helps to both minimize collective risk and strengthen your client relationships at the same time.

Risk #2: Insurance fraud

While fraud has always been a risk for insurers, societal factors and technology advancements have continued to make the same old problem, unfortunately "new again."

> Property and casualty insurers paid $4.6B to $9.2B extra in disaster claims due to insurance fraud in 2021, a cost policyholders bear through their insurance premiums.[4]

The pandemic, as well as customer demands, have driven many insurers to accelerate their digital claims processing — making it easier for them to sustain their business and deliver more efficient, timely customer service experiences.

But with the integration of modern technologies to process claims, insurers are also at increased risk for bad actors to take advantage of their vulnerabilities for financial gain. They often capitalize on an insurer's inability to assess an applicant's authenticity or take advantage of security gaps that occur during the onboarding and authentication process.

Automating claims management through technology such as chatbots, computer vision models and IoT connectivity from a home or car saves insurers time and boosts the customer experience. However, it also requires insurers to enhance verification activities to ensure the data is accurate.

Overall, every insurer faces brand reputation risk when it comes to fraud because it causes a black mark that doesn't always offer a speedy road to redemption in the minds of policy holders. For example, sacrificing customer PII in a data breach can take an insurer down entirely or cause extensive customer attrition (see Risk #3) requiring years of recovery time.

[4] National Insurance Crime Bureau (NICB), Insurance Fraud Adds Billions of Dollars to Insurer Payouts After Disasters, May 2022

Technology to mitigate insurance fraud risk

Technology is helping insurers reduce fraud risk across the claims spectrum. From claim automation to data verification solutions and fraud analytics, the common thread to these solutions lies in harnessing the power of data to yield strategic, high-value results.

- **CLAIMS AUTOMATION SOFTWARE:** Many insurers have implemented sophisticated automation tools to collect claims data from their clients — and convert that data into highly valuable insights, workflows, and documents. Using this type of technology, such as Ricoh IBP Claims Management, eliminates manual processes, increases data accuracy, and accelerates claims processing times.

- **DATA VERIFICATION SERVICES:** Even with the most sophisticated claims automation tools in place, insurers must ensure that the data they collect, process, and manage goes through the right checks and balances. Insurers today are working with various insurtechs and vendor partners, like Ricoh, who provide both technology-led and human-in-the-loop data verification processes.

- **FRAUD PREVENTION ANALYTICS:** Through Machine Learning (ML) models, insurers can make strategic use of the data they already have to prevent fraud. By categorizing fraud cases in their systems and establishing other qualifying criteria, insurers are better able to identify suspicious claims activity and flag it for deeper investigation. Insurers can also take advantage of behavioral analytics to gain insight into clients' online browsing activity, which can help them further evaluate the legitimacy of claims.

Risk #3: Client attrition

Client attrition is a constant risk for anyone operating a business today. In a world of hyper-personalization and extremely high service expectations, building (and keeping) consumer loyalty is a constant challenge. That challenge is compounded by rising inflation rates, which are causing consumers to evaluate their investments in key areas of their lives — from healthcare to groceries to childcare — and insurance premiums too.

While insurers can't impact inflation rates, they can work to improve the client experience by investing in technology, tools and solutions that make it easier to deliver on rising customer expectations. But a key step in the process is fully understanding the factors driving customers satisfaction, and attrition, today.

With greater access to client data, the strategic application of analytics and a constant focus on improving customer communication, insurers will gain valuable insights they can use to drive their CX roadmap, build brand equity, and minimize future churn.

44% of surveyed U.S. respondents conduct research into what it's like to make a claim with a particular auto or homeowners insurer before buying coverage — while an even higher percentage do so in China (79%) and Australia (58%).[5]

[5] Deloitte, Preserving the human touch in insurance claims transformations, October 2021

Technology to mitigate client attrition risk

Today's leading insurers are applying a variety of technology approaches to improve their operations and deliver enhanced employee and customer experiences. Some of those include:

CUSTOMER ANALYTICS & SEGMENTATION: Advanced customer segmentation helps insurers make more strategic use of the data they already have — gathering insights that can help predict churn, understand customer preferences and behavior patterns, and keep a 360-degree of the customer relationship as it changes over time.

CUSTOMER EXPERIENCE MANAGEMENT (CXM): Insurers need a focused CXM strategy to drive successful and integrated inbound and outbound communications. Ricoh's CXM ecosystem delivers a combination of integrated digital solutions to help our customers build competitive advantage, drive customer loyalty and generate new revenue.

85% of insurers are deploying CX initiatives throughout the customer journey, and 90% have a Chief CX or Chief Customer Officer (CCO).[6]

AI-ENABLED CLAIMS PROCESSING: Using claims management software that relies on RPA and ML, such as Ricoh IBP Claims Management, insurers are processing claims faster and with greater accuracy. Electronic data intake, verification and secure sharing among relevant agency departments helps insurers build more connected and satisfying customer journeys over time.

IOT CONNECTIVITY: With more than 13 billion connected IoT devices worldwide, insurers are wisely finding ways to provide increased accessibility to their customers — whether it's submitting auto accident data straight from the vehicle involved in an accident or enabling the customer to submit information securely to a chatbot via their smartwatch, the industry must continue to evolve in lockstep with consumer expectations.

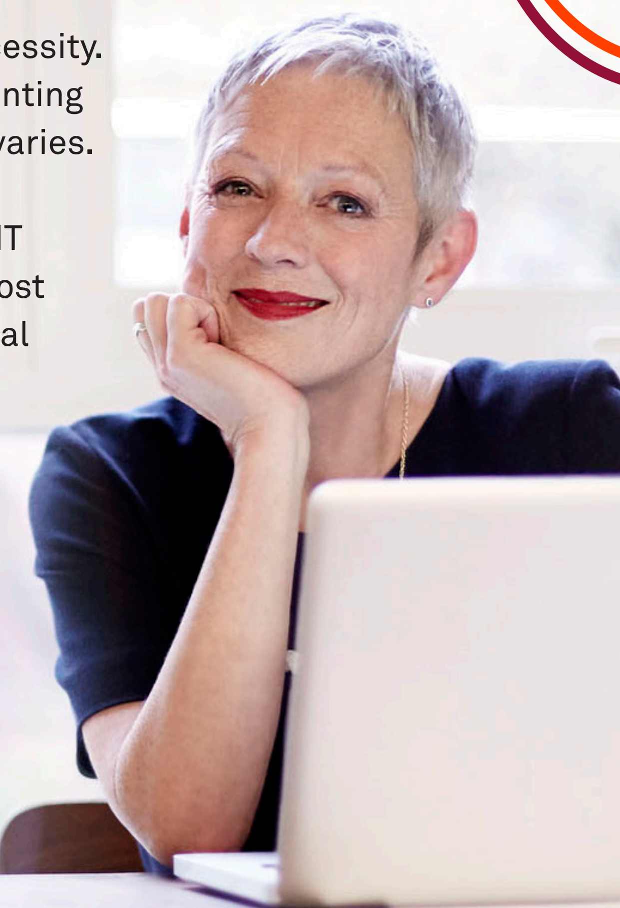
The percentage of claims being handled virtually and digitally skyrocketed from single digits in 2020 to as high as 55% in 2021.[7]

[6] IBM, Elevating the insurance customer experience, 2020
[7] Deloitte, Preserving the human touch in insurance claims transformations, October 2022

Technology modernization requires strategic vision

For most insurance firms, digitization has accelerated in recent years out of pure necessity. But the amount of focus put on upgrading legacy platforms, identifying, and implementing digital enablement tools, and overall strategic focus on a long-term digital roadmap varies.

The writing is on the wall: studies have shown that insurers with more sophisticated IT capabilities have a clear advantage in terms of growth potential, business agility and cost ratios — and they're simply better equipped to keep up with both internal and external demands for digital enablement. Those with advanced analytics capabilities have further advantage, with enhanced ability to predict factors like client churn and the impact of financial market shifts.



Right now, most insurance leaders are increasing tech spend[8] across the board:

- **74% investing in AI**
- **72% investing in cloud computing & storage**
- **67% investing in data analytics**
- **63% investing in mobile technology**

From workflow management tools to digital client engagement and employee enablement technologies, the opportunities abound for insurers to make real headway in minimizing risks to their business. They can do this in concert with building operational efficiency and sustaining client and employee satisfaction. The key for insurers is to invest strategically and find the right partners and the mix of technologies to drive both quick wins and long-term results — without putting too much strain on internal IT resources or the bottom line.

[8] Deloitte, 2022 insurance industry outlook, 2021

5 tips for selecting sustainable tech partners

The world of startup insurtechs, seasoned software providers, and business process outsourcing partners is vast — with a range of offerings from point solutions to full-service platforms and feet on the ground to run key elements of your operations. From our experience working as a partner to insurers and as a digital services organization, we offer five practical tips IT and operations leaders should consider when selecting tech partners that can go the distance and help minimize risks as you grow.

- **Beware the shiny new object.** With the plethora of options out in the market and new tech entrants coming along every day, it's easy to be swayed by point software solutions that solve today's problems. And while sometimes a time-sensitive challenge requires a quick fix, it's crucial to think about the long term and how any software solutions or partnerships you build can work together in harmony to deliver strong ROI over time.

- **Think one step ahead (and then one more).** Every change you make within your organization makes an impact, and it's crucial to consider the trickle-down effects of both key business decisions and technology implementations. For example, adopting cloud technologies to support your work-at-home or hybrid work environment can bring strategic advantage — but it's important to think through the business continuity and security challenges that may arise before you're fully implemented and exposed to those risks.

- **Watch your back.** In the insurance technology space, many of today's up and coming players are posturing to be your competition — not only a tech provider but a full-service solution for your customers. Take the time to understand potential partners' long-term plans and carefully consider how those align with your organization's goals before signing on the dotted line.

- **Consider the limitations.** New technologies and workflows often seem like a perfect choice when you're sitting across the table from a salesperson. However, it's important to consider how those technologies will integrate with your existing tech stack and whether those solutions are capable of scaling with your business over time. Poke holes and test it out before you buy — and keep your eyes open for limitations that could make implementation a challenge.

- **Keep a customer-first mindset.** Whether you're working to improve speed to payment, enabling mobile-first experiences, improving satisfaction scores, or any number of measures — it's crucial to keep a customer-first mindset when you're weighing the costs, benefits, and implementation risks of new technologies. Always think about the immediate and long-term impact on your customers, and don't let your technology choices (or failure to act) stand in the way of progress.

Ready to tackle your risks head on?

We've got your back. At Ricoh, we work with insurers from across the spectrum of discipline — auto, life, disability, health plans, property & casualty and more. We learn from them every day about the challenges facing their business, but every customer we work with has unique goals, needs, and concerns about their business. We collaborate with our insurer clients to understand these factors, with a roll up our sleeves approach that lets us help tackle the risks, challenges and opportunities working side by side with you. Through our technology, services, and people, we're ready to make an impact on your business today.

About Ricoh

At Ricoh, we are unlocking the power of our customers' information, processes, and abilities so they can respond to change and provide the best possible experiences for their employees and customers. By unleashing the full power of trapped information, organizations can unlock the full potential of their people, respond to change with actionable insights, and create more meaningful human experiences.

For further information, please visit www.ricoh-usa.com.

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