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## 2.1 INTERVIEW

# Integrating AI into your operations enhances the quality of service

### Interviewer



**David Grana,**  
Head of North  
American Media,  
Clear Path Analysis

### Interviewee



**Paul Fahey,**  
Chief Operating Officer,  
Global Fund  
Services Americas,  
Northern Trust

## SUMMARY

- *There is still a long way to go before the financial services industry fully migrates to a fully digital environment*
- *Baby Boomers feel comfortable enough with technology to resolve minor issues, as opposed to having a human assist them*
- *Implementation of automation will enable people to focus on more productive functions, such as data output and analytics*
- *AI is helping insurers cut costs and improve clients' experiences*

### **David Grana: What are some of the biggest challenges in quality of service in the finance services industry?**

**Paul Fahey:** There are still a significant amount of activities that are driven by paper. The notion of having a paperless environment is still, in some cases, quite aspirational. We have made significant progress in this area over the past 5-10 years, but there is still a long way to go to digitize more of this data delivery.

### **David: What role is AI playing in this space?**

**Paul:** First and foremost, the term AI as it is frequently used today actually references three components: robotics, machine learning and true artificial intelligence. There is clearly a place in this space where robotics can be used for data. For example, robotics process automation (RPA) can be used to read paper documents, digitize the data, and ingest it into the various technologies and applications. In the area of machine learning, systems, and subsequently people, can interrogate it, provide analytics, and really extract value from it.

The financial services industry is only beginning to embark on true AI, where we see real intelligence. There is still a long way to go with leveraging what robotics and machine learning can do. I see it being less about artificial intelligence and more about augmented intelligence, machines and humans working together

### **David: In the age of Siri and Alexa, what type of personal experience does AI provide in financial services?**

**Paul:** Specifically, for policy holders within the insurance retail side, there is an opportunity to have a much better experience in interacting with the insurance company, using automation and personalization. A lot of retirees may feel more comfortable speaking with a human being. But we are seeing a greater number of the Baby Boomers feeling more comfortable with technology, and are more apt to use it to resolve minor issues.

From a client-facing side, insurance companies need to have more robust technology solutions. The same applies to the defined contributions (DC) space. However, I don't believe that insurance companies have the resources to fight the technology battle on both the client-facing and internal investment side and should look to partners to help on the investment and operations fronts.

### **David: To date, how have insurance companies made the transition to AI?**

**Paul:** It has been more on the client-facing side. Insurance companies are a much maligned group when it comes to being forward-thinking and forward-looking. They are far more forward-looking from a client facing technology standpoint than they get credit for. In a recent

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ALTERNATIVE ASSETS WILL CONTINUE TO PLAY AN IMPORTANT ROLE BECAUSE THE MARKETS AND THE OPPORTUNITY SET IS LARGER AND MORE DIVERSIFIED NOW

”

conversation with an insurance company, they told me that 99% of new account and new client activity is done using mobile technology, avoiding the need to log into the company website. Something as simple as texting is used to acquire, validate, and verify the data. This number is a lot more than I would have expected and this is in North America. I would suggest that, relative to Europe and Asia, the use of mobile technology in the U.S. is playing catch up.

**David: Where do people come in if a process is transitioned entirely to automation?**

**Paul:** What I like about automation is that it will allow people to take on engaging roles. Although, I am not sure that I have yet convinced everyone who is currently working in a role that involves processing or data entry. Implementation of automation will enable people to focus more on data output and analytics, which is a more useful and productive way to spend their time.

One of the factors that I suspect will change is the type of individual that we need in these roles. Some of this will come from retooling and retraining the people. It will require individuals who are more digital savvy, up to speed on analytics, and with more emphasis on interpretation rather than data entry and data acquisition.

**David: There will then be some casualties if you are not trained in this new technology?**

**Paul:** Yes, although I would qualify it a bit. Over the history of technological development, there have been casualties, but there have also been new roles that have been created, and people have been able to make that transition. We have always seen an evolution over time. The number of jobs that exist today that didn't exist 10 years ago

is remarkable. Jobs will be impacted in this respect, but different and new opportunities will evolve.

**David: What are some of the complexities involved with integration of AI?**

**Paul:** Although the idea of a plug-and-play solution has become more of a reality over the past 10 years, there will continue to be a reliance on some of these legacy systems and large engines that are doing some of the work. The question becomes how much they are interacting with people, the other technologies, and if they are producing data that is accessible. But I don't feel it is anywhere near as easy as the marketing makes out. The reality is that, as an industry, there are legacy technologies that are still heavily relied upon which aren't going away anytime soon. Integration is going to be key.

On the positive side, the data mining and data storage technologies that we see today are a lot more user friendly and open source. You are not strictly relying on one technology stack or technology provider to be able to build an all-encompassing solution for your clients.

**David: How much of the financial services and insurance market is using some form of AI in their operations and what is the outlook for AI usage over the coming years?**

**Paul:** Every company is doing something. To what extent that each company is successful, or is deploying or investigating AI, does vary. For the most part, if they aren't doing something in this space and don't have plans to do something in relatively short order, I would be very surprised. How quickly AI becomes pervasive across all organizations will depend on the firms themselves and what their commitment is.

**David: Why is AI particularly critical for insurance firms on the asset management side?**

**Paul:** We want asset managers to be more efficient and effective in their decision-making process. They are the quintessential analysts who are looking at the market to understand where they should be spending time, effort, and investment. What they really don't want to be doing is asking people on the asset management side to do work that is not adding value to the investment process – data gathering, data cleansing, data input or data aggregation.

The ability to consume large volumes of data electronically and focus on the outputs and the insights they provide will enable better and faster decision making.

**David: Has the usage of AI in financial services moved the needle on quality of service?**

**Paul:** Yes. A personal example recently saw me resolve a rejected health insurance claim in less than five minutes using the insurance company's app – a process that, as recently as two years ago, would have taken hours of phone calls and likely an exchange of formal letters to agree an outcome. From a cost perspective to the insurance company, they are not paying someone to be on the phone, fishing through all sorts of information before they then can get back to you.

Similar to what we saw 25 years ago with ATMs. Speaking to a bank teller would cost banks \$3, versus 30¢ per ATM transaction. Shifting people to the ATM saved the bank so much money that all of a sudden ATM fees all but disappeared.

**David: How have insurance firms, specifically, been affected by the uptake in AI?**

**Paul:** Let's take the example of a minor car crash. Today, you simply have to take a couple of photographs, submit them, and within a few minutes you have an email or text back with an approval, and the money is deposited into your account immediately. This used to be a lengthy, 3-5 week process, involving an assessor coming to physically look at the damage before any resolution was found. AI has changed this.

On the asset servicing side, our clients have an expectation that the data they have access to is digital. We can send them all of this information in an easily consumable format that they can then use for their decision-making. We are going a step further and adding value add around that data in providing insights as to what it means for them. This will help us move further up the value chain. Some recent technology acquisitions by asset service providers are trying to get closer to the front office and the decision makers.

**David: What are future iterations of AI in addressing quality of service issues?**

**Paul:** There are a large number of developments that are coming. There are some specific parts of our financial services that are still using paper. I expect that this will change in the next 3-5 years. We will look back on this notion much like we now look at video in black and white. We do have a lot of work to do in this area, but we will realize this dream of a paperless, mobile environment.

**David: Thank you for sharing your thoughts on this topic.**

## 2.2 INTERVIEW

# Integrating systems that will keep newer and older generations of personnel engaged

### Interviewer



**David Grana,**  
Head of North American Media,  
Clear Path Analysis

### Interviewee



**Chris Dvorak,**  
Head of Insurance Solutions, North America, Northern Trust

## SUMMARY

- *Order management buildouts have grown dramatically, making the order entering process seamless and simple throughout*
- *Having a system that can handle securities beyond traditional equities and bonds is crucial for insurers today*
- *The most important thing when implementing new technology is to have strong leadership that can articulate the strategy*
- *Upgrading technology systems could result in changing roles amongst staff*

### **David Grana: What types of new technology are being integrated into insurance companies' processes?**

**Chris Dvorak:** For insurance companies, you can differentiate between the premium claim side and the investment side.

On the premium claim side, this involves much more direct contact with customers. A great deal of automation has happened in this space to attain a better understanding of the customer. Many insurance companies are now exclusively online and are measuring keystrokes. You could say that AI is prevalent there, capturing data, and utilizing it to shape new products, businesses, and to understand the wants and needs of their customer base. The old way of handling claims was lengthy, with face-to-face interaction, whereas now, claims are handled online, and in many cases, via mobile applications. There's less need for adjusters or agents, thus streamlining and improving the process through automation.

On the investment side of the business, order management system buildouts have grown dramatically in capabilities and functionality. They are able to communicate trade execution, as well as fill orders and communicate to the appropriate parties. The key piece is that the correct amount of automation means that a trade should be entered once and only once. It should then automatically transcend to the appropriate parties via automation.

Another area where automation is playing a role is within valuations and quality control reports. This relates to understanding profit and loss (P&L) daily, as well as shifts in the market and being able to act on them in a timely manner.

It is safe to say that both insurance firms and asset owners are evolving in their requirements for custodial data. They are no longer accepting data or information on a T+1 basis, but expecting it real time on the trade date. To be able to do this is critical for them to manage their portfolios. This involves being able to understand P&L and the status of how they are evaluating their portfolio across every position on a daily basis.

Another theme that has been discussed in the marketplace is the concept of a single data set. This is about having an optimal model, where one piece of software or technology can be a solution for all different types of trading.

Insurance companies are no longer solely trading fixed income (i.e. governments, corporates, municipal bonds, and money markets). Today, they are trading in the derivatives space, as well as bank loans and private placements. Having a system that can handle all different types of financial instruments is critical.

SWIFT messaging remains the standard in the market place for affirmation, confirmation of trades, and trade communication. This is the market norm, and the market accepted language of communicating trades. It's about being able to have systems and capabilities to make sure that you and your counterparties are always in line.

Many insurance companies are addressing opportunities to update their technology, and deciding what software would best fit their needs.

**David: What are some of the challenges around staffing and personnel that have resulted from the integration of newer technology into operations in the financial services industry?**

**Chris:** The most important factor when implementing new technology is to have strong leadership within the company that can articulate a technology strategy and why there is a need to transition to a new systems environment. Change is never easy, but it is necessary. Effective training is also an important element for any company that plans to invest in new technology.

Technological advancements have been happening so rapidly in recent years and insurance companies should continuously review their options to stay competitive. This evolution is about looking at new possibilities and what can be. If you aren't continuing to review products and capabilities in the marketplace, you risk falling behind your customers and your competitors.

**David: How widespread a problem is this across the industry?**

**Chris:** The larger the company, the more likely they will have a technology strategy in place that emphasizes continually reviewing and updating their systems environment. It's predominantly in the middle market space - those insurance companies in the \$1-15 billion range - that would benefit the most from a centralized technology strategy that can help them design and implement the optimal operating model.

**David: How can insurance companies that operate legacy systems attract younger talent that has been trained to use newer technology?**

**Chris:** It's a good question. This is not unique to insurance firms, by the way. Other financial firms that would normally attract university graduates with technology degrees aren't able to compete for this talent. Instead, these graduates are primarily going to Silicon Valley or to work for startups. Even some of the hedge fund shops, which are known for their technology, are having a harder time attracting these individuals. As a result, for an insurance company, it seems like dark times in the recruiting space. However, many insurance companies that are in the process of updating or outsourcing their systems have a story to tell and can attract new talent that wants to be part of the changing environment.

**David: If recruiting is more difficult it would seem like we would have people in roles for longer periods of time doing more and more as firms grow, does this present any issues?**

**Chris:** Yes, I would say it could. When you have seasoned professionals in roles and they are the only people within a company that can perform those functions, it is a risk to the firm. Adding to that, if you don't attract younger talent that can learn a process, and then the experienced staff leave the company, you can be left with a situation where there is no one capable of doing a particular job. This is the key person risk, and it is why recruiting, training and growing talent is so important.

**David: One the other side of the coin, what are some of the ways in which companies can introduce a new platform without it being a difficult transition for personnel that is accustomed to legacy technology?**

**Chris:** The most critical component is having the correct leadership to convey the technology strategy. They should then surround this with a very thoughtful program to include the right individuals and managers leading it and monitoring that the plan is being executed properly. A clear communications plan is also important, perhaps listing milestones where people can see what is being done. People need to understand the benefits of the new technology, for example, that what is being implemented is going to eliminate the repetitive type of activities that they have been doing. They need to know that they will then have time and the opportunity to conduct much higher, value-add input within the firm.

**David: As platforms migrate to newer technology, will many of the roles that we see today disappear or evolve into different functions?**

**Chris:** I think it will be both. I have seen this happen firsthand, when some of our larger clients decide to outsource more of the mundane reconciliation and day-to-day operations to companies that specialize in these areas. For one insurance company, in particular, that has more than \$200 billion in assets, outsourcing to a new technology equated to a 50% reduction in staff in their Treasury group. Their outsource provider was able to do the same work for less.

For insurance firms where there are a lot of legacy systems and associated relationships, upgrading to newer technology could change some roles, with staff that occupied those roles taking on different ones, such as analysis or strategy positions. We have certainly seen that happen as jobs have evolved in other ways.

**David: Thank you for sharing your thoughts on this topic.**

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