



The Benefits of Digital Payments:
**Operational
Efficiencies Driving
Customer Value**

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The Benefits of Digital Payments: Operational Efficiencies Driving Customer Value

By One Inc

In this report, we discuss the importance of insurance payment process transformation to reduce expenses, improve operational efficiencies, and drive customer value, ultimately improving competitive advantage.

● Introduction

It takes agility and innovation to gain any competitive edge in today's digital insurance marketplace. The increasing customer demand for a superior digital experience has driven the need for insurers to accelerate their digital strategies and innovate with next-generation technologies. Insurers are under extreme pressure to effectively manage expenses while aggressively pursuing digital transformation and improving the customer experience. To stay competitive, insurers need an enterprise-wide digital platform that not only leverages cloud technology, AI, microservices and APIs, but also provides robust operational efficiencies.

● Customer Experience as a Differentiator

A Celent Model Insurer study revealed that **87.5%** of insurers rated customer experience as extremely important for both company strategy and for generating new business.¹

Customers accustomed to the experience they receive with non-insurance industry behemoths like Amazon, Uber, and Netflix now demand that same ease, convenience and speed with their insurance carrier. In today's world, a superior customer experience is the most sustainable competitive advantage an insurer can have.

● Prioritizing Payment Transformation to Impact Customer Experience

Why should insurers prioritize payment transformation to impact customer experience? Money holds importance, so it stands to reason that if the process of paying or receiving money is flawed over the course of a relationship, overall policyholder satisfaction will be impacted. Take insurance premium payments – due to their frequency alone, insurance premium payments are the greatest opportunity for customer interaction. When one considers a customer enrolled in monthly billing, that alone equates to 12 customer interactions annually and 12 opportunities to positively impact the customer experience.

And insurance claim disbursements, although less frequent, are the most critical to the customer experience – the ‘moment of truth’ in the insurance process when an insurer must keep their brand promise to quickly make their insured whole again.

So together, inbound and outbound insurance payments are the greatest opportunity for an insurer to optimize the customer experience. And with today’s insurance customer expecting and demanding convenience, choice and speed when it comes to making their premium payments and receiving claim payments, it becomes clear that a robust digital payment solution is necessary, one that can drive payment process transformation and operational efficiency.

● Why is Operational Efficiency Important?

Per a study by KPMG, **25%** of every premium dollar is consumed by operating expenses a pattern that has held for the past 10 years or longer. Moreover, their research showed that insurers who don’t prioritize operational efficiency are at much greater risk of failing to deliver the omnichannel digital experience that both customers and agents expect.

As Scott Shapiro, a Principal at KPMG remarked: “The risk to the enterprise of delaying action is increasing, and ultimately a threat to the company’s relevance in the competitive marketplace.”²

With 94% of carriers surveyed stating that they were already actively working on improving operational efficiency, it is clear that the majority of surveyed carriers understand its importance. Yet, 55% indicated that they weren’t meeting their goals. And for many carriers, the study demonstrated that system integration supporting operational processes was severely limited. Finance areas reported the lowest levels, with 20% percent of respondents indicating a complete lack of integration. As Mike Adler, Principal at KPMG and co-author of the study, noted:

“A lack of integration across an insurer can result in incremental and redundant processes, technology and data – increasing costs and impacting an insurer’s ability to serve customers and engage with agents.”

● The Traditional Billing Process

When customers purchase an insurance policy, they do so either directly from the insurance company or through an insurance agent, which effectively results in two different carrier billing models – one that involves billing the policyholder and one that involves billing the insurance agency. Directly billing the policyholder for insurance premium due is the more general practice and fairly straightforward. An invoice is created and sent to the policyholder who then remits payment. If manual methods and paper checks are involved, the process itself is elongated and can be more prone to error.

● The Complication of Agency Payments

Billing the agency, however, is a more complicated process. For most carriers, it involves creating paper invoices that must be printed and mailed out to the agency.

The agency then sends the insurer a bulk payment in the form of a paper check for all insurance premiums owed. The insurer’s accounting staff then has to go through a cumbersome manual reconciliation process that will allow them to apply cash for each policy premium included within this single check.

● The Challenges of Insurance Payment Reconciliation

Looking closer at insurer back-office operations, many improvements can be made to ease reconciliation burdens for accounting and treasury groups. No matter which billing model is followed, when insureds pay their premiums, insurers’ accounting areas need to reconcile those premiums back to their billing systems and ultimately back to the applicable insurance policies. Most often this is still done via Excel spreadsheets and a manual matching process. The more manual and inefficient back-office processes are, the more potential for errors that can impact the customer, such as failing to apply cash or applying it incorrectly. In those cases, what happens in an insurer’s back office actually does affect the customer experience.

● The Moment of Truth

Imagine an insured gets involved in an automobile accident, has to file a claim, and this is the ‘Moment of Truth’ for the policyholder ...BUT the billing system doesn’t show the cash applied for whatever reason – it got caught up in the carrier’s manual process,

so for the carrier – they are showing that this insured’s policy has lapsed, even though they paid their premium exactly as they should have. The policyholder has been a loyal customer, always paid their premium and maybe even referred the carrier to friends and family, but something went wrong in the carrier’s back-office process and now that great customer relationship has been ruined. The insurer has now lost the customer’s trust and their business.

● Escrowed Homeowner Insurance Premium

It is estimated that roughly 70% of homeowner insurance premium is escrowed – paid to the insurer by a policyholder’s mortgage lender or servicer on their behalf. As a result, homeowner insurers receive large volumes of bulk insurance premium checks from these mortgage lenders paying for escrowed homeowner insurance premium. They have to then figure out what home insurance policies are being paid for by that bulk check. This is yet another cumbersome manual process that can negatively impact customer experience and result in coverage cancellation when premium is allocated incorrectly or not at all due to communication glitches and process errors.

● The Efficiencies of Automated Fund Routing

Split insurance payments are another example of added premium payment complexity. Policyholders may be paying an agency fee within their premium, or in a

whole life insurance scenario, could be making a payment against their loan as well as a premium payment. In either case, the preferred option is for the insurer to send out a single invoice and collect a single payment. Payments can then be allocated to the right category.

But in a manual world, that leads to a lot of work for the finance department. If it’s an agency fee that the insurer is collecting, the finance department has to determine how to allocate the money appropriately and then write a check back to the agency for the fees. That’s inefficient, costly and cumbersome. If it’s split between policy types, getting the allocations wrong can lead to policies being cancelled or loans being called. Neither results in a great customer experience.

The more efficient solution is to handle split payments and fund routing in an automated manner. The policyholder just pays one time via credit card or ACH and only gives their information one time. Payments would then be automatically routed to the right product or account. With agency fees, automation can even help eliminate co-mingling of funds.

● Automated Reconciliation Drives Customer Value

When the premium remittance process is more complicated, then almost always, reconciliation is going to be more challenging. Looking closer at back-office operations, many improvements can be made that can drive value-added resource reallocation.

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Automation of the remittance process can greatly help with insurer workflow. Accounting and treasury staff spend much less time performing time-consuming tasks and the chance for error is significantly reduced. When you have clean remittance data, and can apply cash in an automated manner, the reconciliation process is going to be much smoother, less resource intensive, and much more efficient. Accurate cash application and reconciliation enables a much better customer experience, driving customer value.

● The Challenges of Outbound Claim Payment

Traditionally, insurer claim payment operational procedures have been based upon the attributes of a manual check payment lifecycle. These processes have not been updated to handle today's digital payment method lifecycles which are much more rapid and even differ among the different digital types, e.g., ACH, Push to Debit, Virtual Cards, etc. Sending outbound payments via direct to debit, for example, has the ability to move money to a payee's account in a matter of seconds. That is a very different scenario with a much faster timetable than processing and mailing a physical check. Insurers are accustomed to having a certain window where errors could be fixed or stop payments issued. This can create issues for insurers whose internal processes aren't set up for instant payments. Reconciling paper checks is a much

more straightforward process. Now that customers can select their preferred payment method and receive digital payment via texted or emailed links, additional process steps need to be integrated to ensure outbound payments are allocated back to the claim system appropriately.

● The Importance of Escheatment

Under common law, abandoned property is turned over or 'escheated' to the state. The rule not only applies to tangible property, but also to intangible property such as uncashed checks and insurance payments. These laws provide that property unclaimed for a specified period of time, often called a 'dormancy period', is deemed abandoned and must be escheated to the state government. Insurance companies are required to undertake reasonable measures to find the check recipient and to determine if a check has been lost or needs to be re-issued.



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● 1099 Reporting Requirements

1099 reporting handles reporting payments to independent contractors and is another back-office insurer function that can become complex and cumbersome. Insurers can easily miss filing dates, report incorrect Tax ID numbers, file using the incorrect forms, submit with missing or incorrect information, or submit paper filings when electronic filing was required. In addition to filing forms with the IRS, states also have 1099 reporting requirements. Failure to keep up with federal and state regulatory changes can lead to financial penalties and impact an insurer's reputation.

● Payment Security & Compliance is Critical

Data security is a prime concern in an era laden with high-profile stories of identity theft, check fraud, and other exposures that have resulted in substantial damage, both financial and reputational. Providers must therefore ensure full compliance with strict safety protocols to minimize risk and liability.

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- A decorative graphic in the top left corner consisting of several overlapping circles and arcs in shades of blue and green. One large circle is partially visible on the left, and two smaller circles are positioned to its right and slightly lower.
- **Dual-factor Authentication:** Rather than simply relying on passwords alone, which can be hacked easily, dual-factor authentication (2FA) verifies an individual's identity by using two factors. A third-party authenticator (TPA) generates a random code sent to the user via SMS or other means, which they must input into the system to gain access.
 - **Tokenization:** Tokenization refers to the process of turning meaningful data (such as a credit card number) into a randomly generated string of characters, often encrypted, broken up and stored in multiple locations. Even if breached, the token itself contains no value so information cannot be stolen. Tokenization is extremely beneficial when inbound payment instrument data can be reused to make outbound payments.
 - **PCI Compliance:** The Payment Card Industry (PCI) established a set of security standards by which any company that accepts, stores, transmits, or otherwise

processes payment card transactions must adhere. The major card issuers (Visa, Mastercard, etc.) and the PCI Security Standards Council administer and manage the standards, and businesses must meet different levels of security, depending on their annual credit card volume processed.

- **Nacha Compliance:** Nacha (National Automated Clearing House Association) governs the ACH Network. ACH data is used by any entity that handles electronic fund transfers (EFTs), direct deposits, e-checks, etc. According to the Nacha site, nearly 27 billion ACH Network payments were made in 2020, valued at close to \$62 trillion. Nacha protects consumers sensitive financial and non-financial data, including bank account and routing numbers, social security numbers, etc. Nacha compliance demonstrates the strength of an organization's corporate controls.
- **SOC Reports:** Systems and Organization Controls (SOC) are necessary for companies that touch, store, process, or impact a customer's financial or sensitive personal information. Periodic reviews are conducted by third-party auditors to ensure compliance with security, confidentiality, privacy, and other factors. An SOC report verifies the findings.

Maintaining security and compliance is an ongoing, resource-intensive process. Regulatory requirements for the Payment Card Industry (PCI), the Office of Foreign Asset Control (OFAC), the IRS and other federal and state agencies can be overwhelming and extremely burdensome for insurers. Outsourcing these security and compliance

activities can sometimes be the best solution for carriers concerned about both system and resource restraints that could result in liability issues and fines. From escheatment and 1099 reporting to PCI and Nacha compliance – specialized third-party service providers can take on the time-consuming burden of meeting insurer security and compliance requirements.

● Leveraging ‘Anything as a Service’ Models

From the advent of Software as a Service (SaaS), many other cloud-based services have emerged, including Billing as a Service (Baas) and Payments as a Service (Paas). Collectively referred to as Anything as a Service (XaaS), this business model is greatly expanding insurer options. Utilization of Baas/PaaS allows insurers to streamline their operations by optimizing back-office processes and outsourcing payment related activity. These models allow insurers to leverage a wide range of digital solutions that would otherwise be resource-prohibitive for the average insurance company to adopt internally.

● The Benefits of Digital Payments: Operational Efficiencies Driving Customer Value

Digital payment capabilities enabled by APIs allow insurers to provide speed, convenience and choice to their policyholders. In addition to the more obvious

benefits of expanded payment methods, rapid fund access, and an improved omnichannel experience, digital payments are taking on a much larger role in reducing insurer expenses and improving operational efficiencies. Significant benefits can be garnered across the enterprise from operational payment process transformation that drives customer value. Insurers are empowered to manage the entire payment process with less cost, faster settlement, and more efficiency, greatly enhancing both the agent and customer experience.

● About One Inc

Ranked as ‘Best-in-Class’ by Aite-Novarica for its digital platform capabilities, vendor stability and client service strength, One Inc is modernizing the insurance industry through a unified and frictionless payment experience. Changes in consumer behavior toward digital demand will persist and grow. Future-focused insurers have eliminated paper-based workflows and paper checks, investing in more robust digital payment platforms that drive a superior experience for their customers, vendors and other third parties.

At One Inc we deliver a full-stack inbound-outbound payment solution that includes customer engagement functionality, integrated reporting with real-time data, and flexible integration with insurer core systems – be they legacy or modern. Our fully hosted, scalable, and PCI compliant platform reduces risk and increases data security

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and safely stores tokenized data. Our comprehensive end-to-end digital payments platform delivers expanded payment methods, multi-channel digital communications, premium reimbursement capabilities, and rapid digital claim payments, even for the most complex insurance use cases.

The One Inc comprehensive solution enables insurers to deliver on their brand promise to provide a secure and superior customer experience in ANY situation. It provides carriers with the ability to give their customers what they want and expect: control, convenience, consistency, and continuity. Focusing only on the insurance industry, we help carriers transform their operations by reducing costs, increasing security, and optimizing customer experience. As one of the fastest growing digital payments platforms in the insurance industry, One Inc processes billions of dollars per year in premium and claim payments.

One Inc provides carriers with the ability to give their customers what they want and expect: control, convenience, consistency, and continuity. That's the strength derived from the **Power of One™** – a cohesive and seamless experience for both inbound and outbound digital payments.

To discuss your digital payment needs, please call **(822) 209-1688** or email inquiries@OneInc.com

Endnotes

1 <https://www.celent.com/insights/784812447>

2 <https://assets.kpmg/content/dam/kpmg/xx/pdf/2019/03/operational-excellence-report-2019.pdf>

To Find Out More

Visit [OneInc.com](https://www.oneinc.com) for more information and set up a personalized demo on how you can go digital today!

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