WHITE PAPER

How Insurers Can Solve the Talent Crunch with Nearshore Outsourcing

5 STRATEGIES FOR SUCCESS

The insurance industry is experiencing a talent crunch. Plus, current trends suggest the situation will only get worse in the coming years. Finding enough workers will require new strategies: nearshore outsourcing is emerging as the winning option. For this strategy to be successful, though, insurers need to approach it with the right plan.

The Labor Shortage

Many industries are struggling with worker shortages. The U.S. Chamber of Commerce says more than 50 million workers quit their jobs in 2022 – a period commonly known as the Great Resignation. In 2021, 47.8 million workers quit their jobs. Many industries have unfilled job openings, but some have been more impacted than others. In the leisure and hospitality sector, approximately 30% of job openings are unfilled, whereas this number is approximately 55% in the financial activities sector and 60% in the professional and business services sector.

Greg Jacobson of the talent search firm The Jacobson Group told WGLT that insurance carrier employment has decreased by about 85,000 in two years. This is not because insurers aren't trying to hire people – they just can't hire workers fast enough to replace those who are leaving.

The Retirement Crisis

Although it's easy to blame the Great Resignation for the insurance industry's labor shortage, the problem goes deeper than that.

According to a report from the U.S. Chamber of Commerce, the number of insurance professionals who are 55 and above has increased by 74% over the last decade. The age of insurance professionals means the industry could lose 50% of its workforce to retirement over the next 15 years. This will leave more than 400,000 open positions that may go unfilled.

Of course, older workers are always retiring. As long as new workers replace them, no labor shortage occurs. The problem is few young people are interested in insurance careers. The U.S. Chamber of Commerce report notes that fewer than 25% of insurance workers are under age 35. Furthermore, a study from The Hartford found that only 4% of Millennials are interested in working in the insurance industry.

If the insurance industry can't find a way to attract young workers, the labor shortage will only worsen as older workers continue to retire in droves.

Filling the Gaps

The insurance industry needs more workers than it can hire. That leads to an obvious question: where will these workers come from?

Technology isn't the solution – at least, not on its own. Although new technology may be able to alleviate some of the workload, it can't replace the human workers who are responsible for making judgement calls and maintaining quality control. Furthermore, most customers still value being able to speak to a real human when they need help in a tricky situation. For example, a survey from Clutch found that 88% of people prefer to speak to a live customer service representative than to navigate a phone menu. Even when they have to deal with a phone menu initially, 72% of people say they either always or frequently end up speaking to a live human.

Customer-centric insurers create workflows that surround AI-agents with human support systems. For example, if a chatbot observes that a customer seems frustrated or has a complex question it can preemptively offer to transfer the customer to a person. When the interaction is transferred, the live customer service representative has access to the chat log and can quickly pick up where the chatbot left off, ensuring a quick, smooth and seamless experience.

So, if humans continue to be essential, even in an AI-driven world, how can insurers recruit them? They can try to convince younger workers to enter the insurance industry. So far, though, younger generations are uninterested. Insurers can try to entice workers with better compensation, but this strategy could become economically untenable.

If they can't find workers locally, insurance companies will need to expand their search. Nearshore outsourcing provides the perfect opportunity.

The Difference Between Nearshore and Offshore Outsourcing

According to Investopedia, offshoring refers to the practice of outsourcing certain business functions to a country other than where the business is headquartered. For example, a U.S. company might outsource call center services to India. Businesses often do this through a partnership with a company in the foreign country.

Investopedia says companies often leverage offshore outsourcing to take advantage of lower wages or looser regulations. As a result, they often see significant cost savings. In the insurance industry, companies may also pursue offshoring to fill labor gaps.

Nearshoring shares the same basic principle as offshoring, but it's limited to nearby countries. Instead of moving business activities to a country in Asia, a U.S. company may use nearshoring to conduct operations nearby, such as in Mexico or the Caribbean.

Advantages of Nearshore vs. Offshore Outsourcing

Although the difference between nearshoring and offshoring may seem subtle, nearshoring provides two key advantages:

- The time zones are similar, sometimes even the same. When it's 9:00 a.m. in New York, it's 6:30 p.m. in India. That 9.5-hour difference presents a challenge for overseas call centers. To have representatives available when U.S. customers need help, India call centers must operate through the night. Some people are unwilling to work these hours, which makes finding staff more challenging. Workers who agree to the late shifts may be tired and therefore not at their best. Plus, the difficult hours typically lead to higher turnover rates. Conversely, a call center located in the Dominican Republic is only one time zone away from a company headquartered in New York.

- Nearshoring provides easier access for facility inspections and training sessions. You've heard the expression "out of sight, out of mind." When it comes to operating a business, that's not a good strategy: you need to maintain quality control, which sometimes requires a physical presence. Being physically present is much easier and more cost effective when the facilities are located in a neighboring country than when they are halfway around the world.

Advantages of Nearshore Contracting vs. Hiring

In the U.S., companies have to follow strict labor rules that are often subject to change. Recently, worker classification has been a hot topic. When companies classify workers as employees, they have to provide minimum wage and pay overtime. They are also responsible for payroll taxes, workers' compensation, unemployment insurance, and meeting ACA requirements and benefits required under state law.

Companies that classify their workers as independent contractors instead of employees may have this classification challenged, which can lead to lawsuits and fines. In one recent case, the Department of Labor obtained a $650,000 judgement against a company that classified drivers as independent contractors instead of employees. Similarly, the New Jersey Attorney General said Uber had to pay $100 million over driver misclassification claims.

It can be challenging to know when you may classify workers as independent contractors in the U.S. because state and federal agencies use different criteria. Further complicating the matter is the fact that some states – notably California with Assembly Bill 5 – have been working on legislation to create stricter rules about when companies can classify workers as independent contractors.

When companies use nearshore contracting instead of hiring workers, they can alleviate a significant portion of this burden. Wage expectations are often significantly less than U.S wages for comparable talent and capabilities. Plus, companies may be able to avoid many of the requirements associated with employment in the U.S. and may face significantly lower tax rates. When U.S. companies use foreign businesses to act as the employer of record and to handle employment issues, they don't have to worry about managing compliance themselves. For these reasons, outsourcing is associated with much lower labor costs.

Strategies for Success

Nearshore outsourcing can be a cost-effective way to find additional workers in a tight labor market. However, there are pitfalls you'll need to avoid. For instance, if the foreign operations do not meet quality expectations, your company's reputation may suffer. To ensure nearshoring is successful, companies need to implement certain strategies.

1 | Think of the nearshore workers as an extension of your own team.

According to MIT Sloan Management Review, it's critical for businesses to strive for unity. Otherwise, when things go wrong, they may fall into the trap of finger pointing, which can stand in the way of improvement. To achieve cohesion, leaders need to align and integrate different departments. Although this may seem difficult when one of the departments is located in another country, it is possible. Help your local workers develop an appreciation of the nearshore workers, and vice versa.

2 | Give nearshore workers access to the same training.

According to HubSpot, customer service is important to 90% of Americans when they choose a company to do business with. Customer service training is critical for companies that want to retain customers and employees. Regardless of where they're located, your workers represent your company. By training your overseas workers, you set them up for success and enable them to deliver consistently excellent customer experiences.

3 | Work with your nearshore partner to implement the same quality controls.

Imagine you're a policyholder who needs to call your insurer several times over the course of the year. Sometimes, you receive polite and helpful assistance; other times, you do not. Despite the occasional good service, you'll probably be unimpressed. As McKinsey & Company says, consistency is at the heart of customer satisfaction. You need to provide empathy, clear communication, and consistent outcomes, but you can't achieve these without systems for supervision and metrics. Make sure your entire team is on the same page. Consider inviting your overseas leaders to your staff meetings – this is easy to do if you have virtual or hybrid meetings.

4 | Invest in the success of your nearshore team.

An investment in your team can pay off handsomely. A study conducted by the MIT Sloan School of Management found that soft skills training provided a 250% return on investment a year after the training ended. The more you integrate your nearshore workers and invest in their success, the more you'll get out of them.

Just like the employees in your office, your nearshore workers enjoy the camaraderie of being part of the team. If you send them shirts and corporate swag, they'll proudly wear and display it. Introduce them to their American colleagues and when possible, invite them to join staff meetings via video conference.

Take the time to educate your nearshore team. Consider pairing them with their American counterparts for mentorship.

Your nearshore team members have raw talent. They are intelligent, motivated and engaged trainees. They don't know your business yet, but they're quick learners and they want to positively represent your company's brand and follow your procedures.

They also want to know your KPIs and how they measure up. Give them feedback and let them know how they can do better. When they perform well, tell them. They love it when you host a lunch to congratulate them for a job well done.

When you treat your nearshore workers like they're part of the team and invest in their success, you'll create loyal, long-term team members.

5 | Think of nearshoring as a long-term partnership, not a temporary staffing gig you can turn on and off as needed.

If you're looking for a fast fix for the pressing problem of labor shortages, you might think of nearshoring as a temporary solution. However, the current insurance staffing challenges aren't just caused by the Great Resignation – they are part of a broader trend in which older professionals are retiring and new workers don't want to take their places. In other words, this is a long-term problem that requires a long-term solution. If your company approaches nearshoring as a long-term partnership, you're more likely to commit the resources needed to see results.

As insurers compete for a shrinking labor pool, wages may rise, which will put additional financial pressure on an industry that's already facing rising risks and losses. When you utilize it the right way, nearshore outsourcing can be the perfect solution to this problem.

Examples of tasks that can be handled by a nearshore team:

- Receive FNOL/claims calls.
- Support customer service chatbot workflows.
- Provide inbound and outbound policyholder support services.
- Review new business applications for missing information & signatures.
- Validate proof of prior insurance.
- Review inspections and other documentation to verify the submission meets underwriting requirements.
- Review renewals for accuracy before sending out renewal offers.
- Pursue additional information needed to issue or reject a policy.
- Send required compliance notifications and/or policyholder correspondence.
- Perform book rolls on acquired business when the process can't be automated.

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