

## The differentiation challenge in changing insurance markets

*Managing the enterprise and beyond*

**RISK  
MANAGEMENT.  
INCREASING COMPETITION.  
STRAIGHT THROUGH PROCESSING. SHARED  
SERVICES. MARKET CONSOLIDATION. PROCESS ORCHESTRATION.  
COMPLIANCE. REGULATORY CHANGE. SPEED OF DELIVERY. CLAIMS  
MANAGEMENT. MULTIPLE DISTRIBUTION MODELS. MANAGING  
CONTENT ACROSS THE ENTERPRISE. PEOPLE. CUSTOMER  
ATTRITION. UNDERWRITING. LIFE/PENSIONS. CLAIMS MANAGEMENT. SOA. RISK  
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CHANGE. SPEED OF DELIVERY. CLAIMS MANAGEMENT. MULTIPLE  
DISTRIBUTION MODELS. **TIME TO GET SOME CLARITY?** CUSTOMER ATTRITION.  
UNDERWRITING. LIFE/PENSIONS. CLAIMS MANAGEMENT. RISK MANAGEMENT.  
MANAGING CONTENT ACROSS THE ENTERPRISE. CUSTOMER ATTRITION.  
STRAIGHT THROUGH PROCESSING. SOA. RISK MANAGEMENT.  
INCREASING COMPETITION. SHARED SERVICES. MARKET CONSOLIDATION.**

# Introduction

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## Contents

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- 3** *The challenge to measure and manage*
- 5** *Business Intelligence to the fore*
- 8** *Managing risk and compliance*
- 9** *And finally...*
- 11** *About IBM ECM*

**Martin Pack**, VP Industry Solutions, EMEA  
[martin.pack@uk.ibm.com](mailto:martin.pack@uk.ibm.com)

**Douglas Shillito**, FCII, Chartered Insurance  
Practitioner, Managing Director of Shillito  
Market Intelligence Limited.  
[Editor of insurancenewslink.com](http://insurancenewslink.com)

The first three white papers have looked at external pressures on the insurance markets, the state of information technology and its business impact, and the future for distribution – streamlining the process chain. This white paper will look at how the issues and the opportunities can be measured and managed to provide an opportunity for differentiation.

Differentiation is indeed a vital challenge for the chief executive officer and his management team. Those that get the mix of people, process and IT working effectively have the best opportunity to achieve continuous differentiation.

Appropriate management and staff, continuous professional development and a culture that is customer friendly and embraces the latest information technology are all key factors that today's regulators are examining when they look at operational risk management. Information technology has a major role to play as competence, qualifications, and training programmes are increasingly delivered over the internet by e-learning systems and internal and external sophisticated business intelligence services.

External pressures are driving market players to take a view across the enterprise, and beyond to and from the “outer office” of broker, business partner, client and outsourcer. This means that they need to know much more about their business – the information it generates and the processes, to enable quicker and correct decisions to be made by a much wider range of management and staff to take advantage of differentiation opportunities in the market. They also need to second-guess the next regulatory move and how they can turn it to their advantage.

The nagging balance is always between improvement in service and reduction in costs. As the markets become more competitive and consolidate, and costs increase through growing regulatory requirements, there is a need to do both – the company that differentiates gets the balance right.

# The challenge to measure and manage

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## Highlights

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*The challenge is greater than ever to capture information and financials in a meaningful way. As this process will enable insurers to monitor and measure past and present performance and predict future trends. This in turn will lead to more effective decision making.*

It has often been said that ‘if you can’t measure it, you can’t manage it.’ Insurance market players have not been at the leading edge when it comes to measuring performance. A good example is the lack of sophistication in measuring the business benefit from IT investment – some have not even tried and regard it as a cost, rather than a potential profit centre.

The challenge is greater than ever to capture information and financials in a meaningful way. As this process will enable insurers to monitor and measure past and present performance and predict future trends. This in turn will lead to more effective decision making.

Insurance is an information business, and the first move towards understanding better how a company works, and how it can improve its service and cost balance, is by developing an enterprise information strategy. Whilst Organisation and Methods may be over 50 years old, the phrase “Why, What, When, Where and How?” is just as relevant today. In the 1950s, a review of clerical work did not end with an IT system but today IT and the internet pervades every corner of an organisation, its business partners and its client relationships.

### Completing the process circle

The early breakthrough image/workflow systems stretched IT into business process management (BPM). For the first time, this completed the automation circle, providing an opportunity to measure performance and improvement before, during, and continuously after implementation. Companies were able to differentiate by taking the opportunity of measuring performance, cost and service improvement, and then improving allocation and reorganisation of work.

In the early days of workflow systems, an insurer was never sure whether it should be the business analyst, based in the line department; or the systems analyst, from the data processing department; who should be responsible for its implementation. The need for both to be involved reduced the gap between business and IT which unfortunately has not been emulated across all IT projects when it comes to working together and measuring clear business benefit.

With the advent of the internet, ‘Who?’ could also be added to the list of questions in putting together an enterprise information strategy. If ‘Who?’ is the client, broker, or business partner, rather than the insurer, both the cost and service equation changes and needs to be measured.

The key to future differentiation is not just understanding the whole process chain but how to improve it and measure that improvement whilst getting the IT and people equation right.

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**Highlights**

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**IT to the rescue**

In the earlier white papers, IT trends have been examined. External drivers and IT and communication developments are coalescing. When researchers, Celent, published its third annual survey of senior IT executives in US insurers in January, insurance group manager and lead author, Matthew Josefowicz, commented “Insurers are focussing on growth, updating key core systems, embracing more flexible and affordable architectures and resource strategies, and doing it all under tight supervision from the business side.”

The report added that a notable development is the increased awareness and focus on enterprise data initiatives, an area Celent has christened ‘Data Mastery.’ Josefowicz adds “Insurers are realising that control over their data is the only way to ensure profitability, effectiveness, and compliance.”

The key issue is what to measure in order to manage for differentiation. Umesh Shah of consultants, Blueprint Performance & Management, comments “Financial measures do not tell you how to improve performance – which is why, on their own, they are not enough to manage a balanced organisation. Financial focus is only a quarter of the picture you need to see.” He adds that the balanced scorecard approach advocates four key perspectives are considered: the financial perspective (the desired outcome), the customer perspective (the customer proposition), the internal perspective (how to deliver the proposition), and the innovation and learning perspective (the skills and infrastructure required to deliver the proposition).

# Business Intelligence to the fore

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*“The era in which the isolated use of multiple BI tools can be relied upon to support enterprise decision making is outdated, inefficient and must come to a close. The future value of BI to business organisations will come from the extended use of enterprise intelligence services.”*

To enable various strands of performance measurement to be developed and linked, it looks very likely that the Business Intelligence (BI) software suppliers and implementers will have an increasing role to play. Researcher, Gartner, predicts a 5% average rise in BI spend across all markets, but the growth is likely to be much higher in insurance as some of the major suppliers are keen to develop a closer focus on the sector to add to the existing specialists. Interestingly, the application of predictive technologies is due to rise by 10% within overall BI software spend.

IT research and advisory organisation, Butler Group, is calling for an end to tactical use of multiple BI tools following its report “Business Intelligence – A strategic approach to extending and standardising the use of BI”. This report looked at how BI technology is being approached and deployed in the enterprise. The researchers identified that most current BI deployments were brought in to deal with departmental data control and management issues. As a result, the technology’s ability to support enterprise intelligence requirements is being severely constrained.

### Removing intelligence ‘silos’

Senior research analyst and author of the study, Andrew Kellett, commented “The era in which the isolated use of multiple BI tools can be relied upon to support enterprise decision making is outdated, inefficient and must come to a close. The future value of BI to business organisations will come from the extended use of enterprise intelligence services that incorporate the use of products with a capacity to be used as genuine, enterprise-wide, data access, management, and information delivery solutions. However, BI has consistently failed to endear itself to the end user as it is yet to shake off its image of being a provider of solutions for the technically aware.”

The report suggests that BI arena data has no intrinsic value unless it can be used to support business decisions. Kellett adds “Business will only be able to improve its information services, and obtain real value from the ever-increasing data silos that it continues to generate, when it accepts the significant advantages to be gained from integrating and standardising its approach to the management of its BI technology services.”

The Butler Group report also highlights that the usage and availability of enterprise servers from many leading BI vendors is becoming more common, as is the use of web technology to increase information availability and simultaneously reduces the need for IT support by encouraging self-service. This means spreading support for

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### **Highlights**

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***Managers in the sector are not afraid of decision-making but they are battling against a culture of suspicion and fear. 64% of respondents believed their organisation's culture has an impact on decision-making.***

decision making across the enterprise and beyond. However, the report concludes that usage of BI technology within the wider business sense will only materialise once it breaks away from its position as a provider of technology for the power users and data miners, highly skilled finance and business managers, and the business analyst community.

#### **The fear of taking decisions**

The people factor should not be underestimated in spreading decision making – the results of a recent survey by the Chartered Management Institute of senior managers in the UK insurance sector indicates that there is an atmosphere of ‘corporate caution’ from the obstructions they face when it comes to making decisions. The report highlighted that managers in the sector are not afraid of decision-making but they are battling against a culture of suspicion and fear. 64% of respondents believed their organisation’s culture has an impact on decision-making.

The move to componentisation and the growing use and influence of the internet will, no doubt, aid analysis. With the increasing emphasis on process rather than just transaction, companies should be able to establish and review their Key Performance Indicators (KPIs) and evaluate where the opportunities are for streamlining, moving towards straight through processing, and making decisions on offshoring and outsourcing. However, it could be that insurers need to know more about the costs of their operations. A survey from the Institute of Financial Services headed “Pressure to Perform” indicates that 30% of tier-one insurers in the UK did not have adequate data in this area.

#### **Sharing it around**

The main cultural shift is to proactively enter the “spread and share” age. A quantum leap in secure accessibility to data and information combined with the developments in BI tools and the analysis of data quality and relevance through to the establishment of web-enabled data warehouses is at the heart of the potential to differentiate.

In order to address the challenges of the marketplace and provide an integrated IT solution, liaisons are being announced on a frequent basis between the major global IT hardware and generic software suppliers, consultants and systems integrators with BI specialists and BPM/Enterprise Content Management (ECM) providers, and insurance application software developers. Some BI suppliers have a range of insurance KPI templates available to speed up development.

Costs, service, growth, retention, profitability, distribution and administration options need to be looked at collectively. There is a real

opportunity to differentiate if the company has an effective and flexible enterprise-wide performance measurement and management system in place. However, the measurement does not stop there, but has to reach out to the ever-changing process involvement and responsibilities of the 'outer office' of intermediaries, business partners and clients.

In the future, there will be fewer staff with more knowledge, with an increased use of business rules engines streamlining routine, particularly within new business and claims. The differentiating company will delegate more authority to a wider range of people using the technology now available, which will have a vital role in operational risk management and compliance.

The new breed of staff and management have now generally accepted IT as a key function of their work, even if there are still pockets of Luddite resistance in the London Market. Even there, barriers are beginning to break down.

## Managing risk and compliance

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### Highlights

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***The Association of British Insurers suggests risk diversification could reduce the capital requirements of general insurers by 25%-50%.***

In looking at compliance in White Paper I, it was observed that four key issues are the same for compliance as for business - data and network security, data quality, operational and financial transparency, and record retention and accessibility. This was translated by Celent into improving cross-selling, pricing and underwriting ability, business intelligence and strategic planning, and multi-channel distribution.

In addition to major developments in IT, insurance management will be assisted by a widening range of software to deal with all aspects of compliance and its twin, operational risk management. The Institute of Financial Services' report indicated that compliance was impacting the need to move to an enterprise view and more sophisticated BI - around 60% of respondents believed they had failed to invest enough in underlying data structure, BI toolsets and visualisation tools.

### **Improving risk across the industry**

Of interest in the operational risk management arena is the initiative between the Association of British Insurers (ABI) and SAS Institute, who have recently launched an operational risk insurance consortium (ORIC) across market sectors in the UK, initially with 16 insurers, but with more to join shortly.

The aim is to aggregate the experience of the industry's operational risk data, which in turn, will help to improve understanding and management of each company's own internal information as well as potentially assisting with regulatory requirements such as capital adequacy - in fact, the ABI suggests risk diversification could reduce the capital requirements of general insurers by 25%-50%.

### **The rise of benchmarking**

The database will provide quarterly information on losses due to human error, external events and failed processes or systems, with security and confidentiality. Such a move confirms a rising trend in benchmarking, encouraged by regulators generally. Some of these will be confidential and some open to wider scrutiny in keeping with the new era of increased transparency.

After the 2005 hurricanes and the tsunami at the end of 2004, resulting in around 100,000 deaths, risk modelling came under fire. Several market players and specialist IT suppliers have vowed to improve modelling in readiness for the expected future climate change problems and releases are now coming on to the market. The rating agencies are also extending their reach to enterprise risk management systems, thus keeping up the pressure.



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**Processing at the centre of differentiation**

Differentiation on product is usually short-lived. By contrast, continuous analysis of information and its place in the overall process chain, who views it, and who is allowed to change it, can offer far more. It provides opportunities for insurers to differentiate as they examine their core competences and their future role within that chain.

The short-term differentiators are today's surround technologies around the silo legacy systems that still remain in many companies. They will evolve into enterprise-wide (and beyond) business process and content management, and customer/channel management, with transactions, BI, and compliance as by-products. This will enable appropriate (and usually tailored) access for staff, partners, brokers and clients, over the insurer's intranet and extranet.

## And finally...

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### Highlights

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***The challenge then for the company that aims to differentiate, is to concentrate on its people, ensuring they are fit for purpose. To get to this point, they must have clearly defined what the purpose and culture of the company is and what its processes 'look like'.***

This series of White Papers has touched upon a broad ranging number of challenges faced by insurers today. These challenges include external and internal pressures and how they will influence the speed of change, from legacy systems to web-enabled components.

Here, differentiation will come from seamless straight through processing utilising BPM and ECM systems and the growing range of BI tools. Process evolution will bring about a change of culture within market players to match the change already occurring amongst insurance buyers, with self-service being the future for both in a more transparent market.

The challenge then for the company that aims to differentiate, is to concentrate on its people, ensuring they are fit for purpose. To get to this point, they must have clearly defined what the purpose and culture of the company is and what its processes 'look like'. They must identify where streamlining can take place and how it will be measured and modelled. This will give the insurer the ability to achieve greater business value out of IT investment as it will use a more sophisticated performance measurement and management approach across the enterprise and beyond.

#### **Being more interactive and personal**

Looking to the future, a new report, 'Foresight 2020', by The Economist Intelligence Unit, and sponsored by Cisco Systems, highlights that by 2020 relationships will be key to corporate success. Rob Lloyd of Cisco Systems commented "Customers are looking for a higher level of interactivity and personalisation. To be successful, companies have to invest in workers and technologies that can drive collaboration and interactions inside and outside the company across the entire value chain of customers, partners and suppliers."

The survey covered more than 1,650 executives globally with a follow up series of in-depth interviews. Respondents expect spending to shift to communications and collaboration technologies that enable knowledge management and customer service.

Within the financial services sector, the top four focus areas for productivity improvement over the next fifteen years are predicted to be improved integration of data/technologies; increased automation of processes; improved quality of communication; and more efficient organisational structures.

The most important skill sets for organisational success will be management; risk management; and interpersonal. The top three IT investment areas at present are financial management and reporting; general IT infrastructure; and risk management and compliance. By 2020, the respondents say these will be knowledge management; risk management and compliance (here to stay?); and customer service and support.

## About IBM ECM

IBM ECM helps organisations make better decisions by managing the content and processes that drive their business. IBM ECM's solutions allow customers to build and sustain competitive advantage by managing content throughout their organization, automating and streamlining their business processes, and simplifying their critical and everyday decision-making. Headquartered in Costa Mesa, California, the company markets its innovative solutions in more than 90 countries through its own global sales, professional services and support organizations, as well as via its ValueNet® Partner network of resellers, system integrators and application developers. IBM ECM has long-term relationships with an extended network of world-class systems integrators, consultants, and value-added resellers who bring specialized knowledge of how to apply IBM ECM's solutions to specific industries around the world. Our ValueNet® partnerships are all part of our effort to meet our customers' operational, regulatory, and technical needs as effectively as possible. By supporting our partners throughout the implementation process and beyond—through training, documentation, and our own industry expertise—we ensure that our customers derive the greatest benefit from their IBM ECM solution. IBM ECM knows the true value of ECM emerges in how it transforms the operational specifics of an organization. It requires not just a powerful and flexible platform to accommodate the widened range of business requirements, challenges, and goals to which it is applied, but also a deep understanding of the process and regulatory realities of the industry in which our customers work. IBM ECM (and its ValueNet partners) design solutions to:

- Increase efficiency
- Increase quality
- Enhance service
- Improve financial performance

### **Customer ROI**

Insurance companies are looking for technology partners that shorten the timeframe for profitability. They are creating a more customer-centric model, which is a quantum leap for some who previously experienced technological limitations or were used to dealing with a different breed of customers. Also, insurance companies, brokers and dealers are coming under increased scrutiny by external regulators. IBM ECM solutions are installed in 9 of the Top 10 Non-Life companies and in 20 of the Top 25 Life and Health companies. Customers include: AXA, Allianz, AIG, Cigna, GE Capital, Geico, ING Group, GMAC Insurance, Safeco and Zurich.

**Some of the IBM ECM insurance case studies**

**Aon Corporation**

- Unified document management across service centers
- Improved productivity by 30 percent
- Enabled data sharing
- Allowed for continued business after Sept. 11

**GE Employers Reinsurance**

- IBM ECM installed a base technology that would enable the input of claims in an offshore environment with claims management in the U.S.
- As a result, GE reduced headcount, improved access to claims file and improved customer service

**Sun Life Financial**

- Sun Life initiated a project to reduce reliance on paper and improve the processing of disability claims
- IBM ECM provided automated workflow and work management and real-time access to claims
- This resulted in 40 percent reduction in headcount, one day turnaround on key transactions, 30 to 50 percent savings in claims processing and reduced the average per claim payout

**Exeter Friendly Society**

- Exeter Friendly Society uses IBM ECM to extend its document management across the enterprise.
- Exeter benefits from an increase in speed of claim processing above the industry average, whilst having a complete audit trail of communications.

**AXA Ireland**

- Time-consuming and labour-intensive paperbased processes were resulting in slow customer response times for AXA Ireland.
- IBM ECM now manages business processes, giving AXA significant reductions of admin, freeing up claims handlers, enabling queries to be dealt with faster and improving customer service

**Interpolis N.V**

- Interpolis N.V needed to cut the cost of managing its growing paper output, a cost estimated at US\$2M.
- IBM ECM has eliminated paper documents, improved productivity and has led to projected savings of US\$1M.

**Swiss Life Group**

- To reduce costs, Swiss Life replaced its document archiving solution as it was no longer meeting scalability and performance requirements.
- IBM FileNet Image Manager and IBM FileNet Content Manager give Swiss Life new levels of flexibility and have resulted in reduced costs and faster development times for new services.

**Zurich Deutschland**

- IBM ECM's electronic document management system has digitised all paper documents to streamline their handling, storage and retrieval.
- Zurich has reduced document retrieval time by up to 83% and has filed more than 120 million documents.

**Douglas Shillito, FCII, Chartered Insurance Practitioner, Managing Director  
Shillito Market Intelligence Limited**

Douglas has spent his entire career in insurance. He carried out a number of management roles with Royal Insurance over 20 years, is a past chairman of the Chartered Insurance Institute's Society of Fellows, and a past vice-president of the Institute. He formed Shillito Market Intelligence Limited (SMIL) in 1981. SMIL are insurance business analysts and commentators who monitor globally the management, structure, processes, distribution, business pressures and opportunities across all insurance markets at a strategic level, building a bridge with information technology in all its guises. Clients range from insurers and intermediaries, to management consultants, software, hardware and telecoms companies.

**Martin Pack, VP Industry Solutions, IBM ECM EMEA**

Martin brings nearly 27 years of IT experience, of which 18 years are within the insurance industry. Martin leads the Industry Solutions teams within IBM ECM EMEA. Part of the teams' role is to help customers understand how IBM ECM solutions tackle key business processes, such as Customer Service, Mortgage Origination, Claims Processing, Underwriting, Governance, Risk and Compliance.



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**To see how IBM ECM customers in the insurance industry are meeting the challenges faced by the industry and how IBM ECM solutions could help your organisation, please register your details at [www.filenet.com/clarity](http://www.filenet.com/clarity)**

**Or contact us on:  
Tel: +44 (0)1869 326427  
Martin Pack, VP Industry Solutions,  
Email: [martin.pack@uk.ibm.com](mailto:martin.pack@uk.ibm.com)**

IBM United Kingdom Limited  
EMEA marketing and publishing services (emaps)  
Normandy House  
PO Box 32  
Bunnian Place  
Basingstoke  
RG21 7EJ  
United Kingdom

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