IBM

The differentiation challenge in changing insurance markets

The state of IT and its business impact

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MANAGEMENT.
INCREASING COMPETITION.
STRAIGHT THROUGH PROCESSING. SHARED
S. MARKET CONSOLIDATION. PROCESS ORCHESTRATION.
ANCE. REGULATORY CHANGE. SPEED OF DELIVERY. CLAIMS
MANAGEMENT. MULTIPLE DISTRIBUTION MODELS. MANAGING
CONTENT ACROSS THE ENTERPRISE. **PEOPLE.** CUSTOMER
UNDERWRITING. LIFE/PENSIONS. CLAIMS MANAGEMENT. SOA. RISK
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SHARED SERVICES. MARKET CONSOLIDATION. PROCESS
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CHANGE. SPEED OF DELIVERY. CLAIMS MANAGEMENT. MULTIPLE
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G. LIFE/PENSIONS. CLAIMS MANAGEMENT. RISK MANAGEMENT.
CONTENT ACROSS THE ENTERPRISE. CUSTOMER ATTRITION.
TRAIGHT THROUGH PROCESSING. SOA. RISK MANAGEMENT.
PETITION. SHARED SERVICES. MARKET CONSOLIDATION.*

Introduction

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Insurance companies today face a tough challenge to differentiate themselves in a crowded market. In order to stand out, they must offer something new to a customer base that's become spoilt for choice. Whether by price, product, focus or spread, delivery, availability, flexibility, service or quality, the insurer must deliver a number of services: visibly provide value for money, be the client's friend and, for the bigger organisations, mix local acceptability with a global strategy.

These frequently conflicting factors make the differentiation challenge tougher still. Ultimately, this challenge can only be met by an organisation that understand and solves the link between people, process and technology – approaching them not in silos or in isolation, but recognising that every effort to differentiate and improve business performance can only be truly successful when people, process and technology are considered in conjunction with each other.

'The State of IT and its Business Impact' is the second in the series, and examines the information technology landscape and how this is affecting insurers. This paper looks at how IT is impacting on both the operations of insurers, and the stakeholders themselves.

The link between IT And the Business

Highlights

Whilst the successful implementation of information technology can certainly be a key differentiator, that success is still very much dictated by how the business people are involved and trained and an understanding of how the process can be improved.

Continual advances in information and communication technology always mean that whatever is implemented probably needs updating before it is completed, or when it has been running for a short time. Over the last few years, information technology has expanded from the mystique of the back office to the front office with the advent of e-commerce. Increasingly, suppliers are clamouring to speak to business managers about a business solution rather than the traditional route through the technologists.

This impacts the business knowledge required by the supplier and the internal IT department, which in turn, requires awareness of the potential of information technology from the business manager. Hopefully, the business manager should concentrate of the business impact of IT rather than how it works – after all, how many know or enquire about how a car or a television works?

Whilst the successful implementation of information technology can certainly be a key differentiator, that success is still very much dictated by how the business people are involved and trained and an understanding of how the process can be improved. Ultimately, for new systems or ways of working to be seen internally as a success they have to be embraced by the people (with some downward pressure often needed!) much of this comes down to communication. This can require IT departments to step outside of its comfort zone and actively 'promote & sell' the benefits of the new system. It has to recognise that without proper prior promotion – end users are likely to see any change as a threat. Involvement of the business staff at all levels alongside internal IT departments and suppliers is a vital ingredient for ensuring the best implementation and ongoing optimum usage, and a senior business champion is always an asset.

A wrong user attitude or inadequate training has spelt doom for many IT projects, and with access to information increasingly extending beyond the enterprise, the even more complex training of business partners, intermediaries, and the client is growing more important in the quest to achieve continuous differentiation.

There are many examples over the years of how not to do IT, but also some positive instances that stand out like a beacon of light.

The people side of technology
Direct Line in the UK provided a good example of how to get both the technology and people skills right. As a result it carved out a considerable stake in the UK personal lines sector before the traditional market players could move to compete. Direct Line had

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Highlights

Two examples of how not to do it are in the areas of quotations and expert systems. When UK life offices first got involved with videotext quotations, they asked their inspectors, who look after independent financial advisers, to market the service.

more advanced technology enabling it to change rates daily, compared to the traditional marketplace, which was mainly broker-based and took several weeks to update through intermediaries. It also invested significantly on people skills to run a telephone-based direct channel to breakthrough into the market. The client benefited from quicker service and a friendly voice on the telephone – you can hear a smile – and the insurer was able to pick and choose the business it wanted on a much more flexible basis.

Where things go wrong…

Two examples of how not to do it are in the areas of quotations and expert systems. When UK life offices first got involved with videotext quotations, they asked their inspectors, who look after independent financial advisers, to market the service. In effect, the online quotation system eliminated the need for the inspector to call round to the advisor with a quotation, which at the time was one of their main opportunities for a business or social call. Whilst the economics of online quotations appeared sound, the insurers were asking their inspectors to act like turkeys voting for Christmas. In short, the lack of attention to how the change might impact the inspectors' future role slowed down the benefits to be gained from the development.

Expert systems were heralded as a breakthrough in technology. The underwriter was the target with the challenge to automate a higher quantity of new business proposals without the need for his intervention. In order to do so, the co-operation of the underwriter was required to relate to the systems analyst how he went about his daily task. Co-operation from underwriters was poor because, again, they perceived their jobs were at risk. This meant that the real opportunity through technology advance was not made until some years later, because not enough attention was given to explaining to underwriters that their job would actually be enhanced. The rationale being that automation would mean that underwriters could focus on 'exceptional cases' rather than a mixture of difficult and routine.

On a positive note, there have always been examples of users who have been involved in a system's development and regard it as "theirs" because it helps them do their job better and makes it more fulfiling, even if it is forever changing. These users are going to optimise the business benefit.

Phased replacement of legacy systems

Highlights

Replacement of product-focused legacy silos has not been significant in the last five years or more because of the cost and time involved in a 'big bang' replacement process. This is critical, as a siloed product mentality will give insurers a major strategic disadvantage going forward.

When looking at the external and competitive pressures facing insurers worldwide, the main issue for many established players is how they move from legacy systems based around product rather than customer before the systems grow much older. Consolidation of markets is due to accelerate, the old systems are creaking with age, and time is running out. In spite of this scenario, replacement of product-focused legacy silos has not been significant in the last five years or more because of the cost and time involved in a 'big bang' replacement process. This is critical, as a siloed product mentality will give insurers a major strategic disadvantage going forward. A customer-centric view is required to differentiate, so technical people and processes need to be strategically aligned to this goal.

Whilst there is some movement in legacy replacement amongst smaller insurers around the world, the medium to large insurers have tended to look at surrounding the mainly number crunching, transaction-based back office with point solutions in middle and front office processing. More recently they have been reaching out to business partners and clients, through the internet.

The trend to provide a range of point solutions has accelerated through a significant shift of strategy by the major insurance application software suppliers who, not getting the big replacement orders and long term projects, have been moving to a component-based approach from a 'package' solution.

Point solutions beyond the back office really began with the evolution from image to workflow to business process management (BPM) to enterprise content management (ECM). The nature and impact of these applications meant that Business management became more involved in systems development. they were needed to identify/ define the internal process circle chain to improve organisation and distribution at work. These developments, spread over more than a decade, not only complemented the back office legacy systems, but enabled a clearer opportunity to assess the cost and service benefits of IT investment impact on the people, the process, and the bottom line, on a continual basis.

Internet as the catalyst

Workflow/business process management systems have already brought about a closer working relationship between systems analysts and business analysts as well other business management and staff. However, the commercial acceptability of the internet as a means of

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Highlights

A recent survey by the Institute of Financial Services in the UK indicated that 50% of financial services companies have not achieved a single customer view, although many millions of pounds have been spent on customer relationship management (CRM) systems.

access to information by business partners and clients is destined to be the future catalyst in bringing the back and front office and beyond seamlessly together.

The insurance markets have been relatively slow in understanding the potential of the internet and are still a long way from optimising its impact on their operations, particularly in commercial and wholesale markets – a speaker at a recent Xchanging conference said that for all the talk about modernising the London Market, there had been no mention of the internet.

Still not achieving the single customer view, despite CRM

We have now reached a stage across the enterprise where there is not only a proliferation of legacy systems but also an increasing number of point business process solutions. The Holy Grail of single customer view across the enterprise is still some distance away.

A recent survey by the Institute of Financial Services in the UK indicated that 50% of financial services companies have not achieved a single customer view, although many millions of pounds have been spent on customer relationship management (CRM) systems. This has become an even more serious problem with client acceptability of the internet. Many earlier CRM systems lacked sophisticated cost/benefit analysis and were an example of management viewing IT development as a cost rather than a potential profit centre. there was also a lack of attention to the people issues (training & culture change) that is required to make a CRM implementation successful.

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Measuring the business
benefit from IT investment

Highlights

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As external pressures mount, with particularly compliance issues being time critical, information technology is in a period of transition. Whilst many lessons have been learnt, there is still much to do to reach a watershed where IT is seen as an integral part of the business-without its successful development and implementation, differentiation will be hard to achieve.

The industry generally has not been good at measuring business benefit from information technology – in many cases vital, ongoing metrics have not been established for subsequent comparison prior to implementation. The London Market has a long history of not addressing this crucial issue when marketing new IT initiatives to business. A good example of this was the ill-fated Electronic Placing Support (EPS) project a decade ago. Market research amongst brokers indicated that they knew how much they had spent but had no idea of the business benefit, whereas Lloyd's managing agents didn't even know how much they had spent on the project.

External pressures and IT developments have coincided

Looking at the external pressures on market players, it is clear that there is an increasing need to look across the enterprise and beyond. Fortunately, a breakthrough in available technology has coincided with this challenge. A move to a component-based approach in systems development linked with internet protocols provides much more flexibility. Also, electronic standards, developed in the early days of electronic data interchange (EDI) are increasingly being web-enabled. Ambitious organisations aiming for differentiation are early leaders in linking components with web services and service orientated architecture (SOA) across the front and back office to replace legacy systems and link point solutions through a co-ordinated, phased approach.

Electronic standards will increasingly become international with ACORD as the catalyst. Outside North America, ACORD standards have been developed and accepted in the international London Market, providing an opportunity to streamline the complicated, costly process chain. Lloyd's in its recently published three year strategy plan emphasises the importance of electronic standards and its role as encourager and overseer. Leading insurance application software houses worldwide have also rallied to the ACORD standards cause.

Moreover, insurance software houses are now building a range of partnerships with management consultants, systems integrators/ implementers, and specialists particularly in enterprise content

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management, business rules, and business intelligence, to provide co-ordinated, speedier development with options on future processing such as ASP and outsourcing. Fewer suppliers, whatever their size, are trying to do everything themselves.

The total process chain

The future emphasis will be implementing systems that manage the entire process from the client straight through to completion, not just to and from the broker & insurer. The aim is for a single entry for structured information and multi-media input, and storage and retrieval for the growing diversity and volume of unstructured information. The importance of managing this unstructured information cannot be understated – it is frequently essential to the insurance process – whether it be e-mail, survey reports, photographs, videos, or claims estimates.

The company that differentiates in optimising the business process chain needs sophisticated version control and audit trails in order to comply with regulators and reduce operational risk. They also need to be an excellent trainer, manager and persuader to encourage the secure sharing and updating of common information along the chain to get the most out of the technology.

In the new, straight-through world, transactions, compliance, and business intelligence/performance management will over time become natural by-products from the 'womb-to-tomb' automated processing evolution.

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The need for a mindset change

Highlights

Brokers have to learn to share information more readily, particularly as the growth of electronic hubs and repositories means that in the future all parties along the process chain will be accessing and updating a common set of information.

For many market players, the move to a straight-through but still people-based business, making the most of IT development and investment, requires a change of mindset. The biggest challenge faces those markets that have been predominantly broker-led.

The role of the broker is being increasingly put under pressure. In personal lines, telephone-based, and now internet-based, channels have cut back the broker's market share significantly in developed markets. The Spitzer Enquiry has been a set back to the desire of the major brokers to secure a wider role as the client's risk manager rather than being mainly placing agencies. Whilst research by consultants, Advisen, and a recent survey on ethics by the CPCU in the US indicates that Spitzer may not have done too much short-term damage to the major brokers, longer term indications are that client risk managers have certainly being put on alert.

The need for more open, collaborative working

In commercial and wholesale markets, there is much to do to streamline the process chain. Brokers have to learn to share information more readily, particularly as the growth of electronic hubs and repositories means that in the future all parties along the process chain will be accessing and updating a common set of information. A recent court case in the London Market was brought by an underwriter because a broker refused to allow sight of original client documentation subsequent to inception – the underwriter had seen the information at the underwriting stage and was simply requesting a further sight of it.

In a report in January, commissioned by the Chartered Insurance Institute's Faculty of Insurance Broking, technology was identified as the solution to the regulatory pressures and increasing competition. With the caveat that if only the insurers, and even more so, the brokers had more belief in its potential to create business value and differentiation.

The report highlighted that smaller UK provincial brokers will be increasingly threatened by a direct channel impact in small and medium commercial lines and by their more Luddite attitude to their role, compliance and IT. In fact, 77% of brokers want an urgent review of the recently introduced Financial Services Authority regulation compared to 43% of insurers. There also appears to be more complacency amongst brokers over the impact of insurer-broker relations concerning key market issues.

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Bridging the IT/business gap across the enterprise and beyond

As information technology increasingly impacts the front office and the 'outer office' of business partners, supply chain, and the growing internet-savvy client, arguments continue about the gap between IT and business. CSC recently published research to indicate that now IT people had learnt much more about business, it was the business managers who were holding back development. Datamonitor took a rather different line saying that when it came to SOA development amongst European insurers, the business was leading IT in identifying priorities for development because of external pressures.

Both these surveys indicate the need for IT and business managers to work more closely together. A more sophisticated approach to business benefit from IT investment would certainly assist, whilst the outward-facing management at insurers have a key role to bring brokers, other business partners and clients on board to co-operate, share, and access electronically.

White Paper 3 'The Future of Distribution' will take a closer look at the future for distribution as the challenge of differentiating through a co-ordinated enterprise approach is extended beyond to the 'outer office' with its wider range of mindsets, priorities and culture.

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 fileand 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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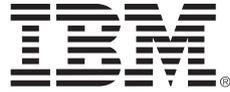
For more whitepapers or to contact us, go to:
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To see how IBM ECM customers in the insurance industry are meeting the challenges faced by the industry and how IBM ECM solutions could help your organisation, please register your details at *www.filenet.com/clarity*

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