

# Business Intelligence: Insight for the Insurance Industry



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# Executive Overview



The past year has been especially difficult for the insurance industry. With the numerous natural disasters, such as the hurricanes that struck New Orleans and Florida; the federal government threatening to eliminate its underwriting of terrorism coverage; and the regulators re-examining some of the basic operating tenets of the business finding, writing and keeping profitable business will only become increasingly difficult for insurance companies.

In addition, new entrants like eSure into the competitive markets for property and casualty are continuing to exert pricing pressure. Even the major carriers are extolling the cost savings they offer over their competition in their marketing messages. A perfect example of this is Geico's advertising campaign: "I just saved a bunch of money on my car insurance by switching to Geico." The traditional marketing of stability and security is giving way to pricing as the lead offer—a clear indicator of commoditization of the product offerings.

Rising health care costs and the aging demographics of the baby boomers are changing the marketing mix for life and health insurers. Life insurance is now about asset distribution after the accumulation. The new federal health savings accounts are creating an opportunity for health insurance to be a part of an active portfolio for trading and asset accumulation. This is an opportunity for asset and wealth managers who are posed to capitalize on the opportunity with the ability to quickly create relevant products.

Moreover, the costs of doing business have increased permanently. HIPPA compliance and SOX 404 are industry facts, and on the horizon are SOX 409 and the active management of credit exposures as a portfolio of risks. These mandates require new tools and skill sets to utilize and turn into competitive advantage as the industry leaders have been doing.

As insurance companies struggle to meet the multitude of new requirements, the rigorous cost containment of the last several years seems to be winding down for IT—although new requirements are being added by compliance initiatives that must be absorbed into the existing budget. Operational efficiency is the mandate. Insurers are looking to consolidate their average of 14 different policy administration systems to enable them to better serve their customers by finally being able to know who their customers are. Add to this the legacy infrastructure that has accumulated over 30 years of business intellectual property, new sources of data for reducing the underwriting risks for P&C insurance like event data recorders for airbags in automobiles, and you are faced with an industry that must change the way it fundamentally does business.



High-performance organizations as defined by the research firm Gartner enable their employees with the right information with which to make intelligent decisions. In the October issue of the Harvard Business Review, the article “The Passive Aggressive Organization” states, “Only 20% of surveyed individuals in passive aggressive organizations agree that ‘information flows freely across organizational boundaries.’” Operational efficiencies will be predicated on the free distribution of information to all stakeholders in a format that is easy to understand and take action on, and that spans the silos of the organization. This is the traditional value of business intelligence (BI) and is the way it is being used by our insurance customers.

### **Common Business Goals**

The common goals shared by all lines of insurers today include rigorous compliance with all existing and emerging regulatory mandates. Some companies are using their governance strategy as a competitive weapon to win new clients and shareholders. The competition for market share is increasing with new entrants, and is contributing to the current soft market for pricing of new business. In any event, taking share from competitors is a key goal. Cost reduction is nothing new as an ongoing goal for all lines of business. It has become an ongoing mantra. The capitalization of new business opportunities is a common goal that will be driven by the ability to rapidly create new products and build effective distribution channels.

### **Property and Casualty Goals/Investments**

Property and casualty insurers are striving to efficiently make use of in-house, external, and derived data for underwriting granularity and reduced variance in pricing for hard versus soft markets, thus stabilizing their profitability. They are also driving efficiencies in their claims processes, focusing resources on exception handling, and automating the handling of routine claims with the implementation of rules-based systems. Finally, they are reducing costs and improving channel efficiency by promoting increased levels of channel self-service by exposing more internal processes and information to distribution partners.



### **Life Healthcare and Annuity**

Agent productivity will continue to be a business focus for life insurers including evolution to financial advisor positioning by including new products and distribution partners like BancAssurance. The adoption of distribution technologies including standards (XML)-based interfaces to captive and independent agents will improve the speed of adoption for straight-through processing as an evolutionary step similar to the implementation within capital markets. Self-service initiatives will expose more of the core systems to the channel and will lower carrier costs while improving service delivery and customer satisfaction. Expansion of business activities will include channels, products, and markets such as wealth management, BancAssurance, and emerging markets like China.

# Market Drivers



Terms like “303,404,409” have all become part of the modern vernacular thanks to Sarbanes Oxley. IT must now comply with these new regulations, while the business can not provide additional funding to help with the increased costs of compliance.

The next mandate on the horizon is the effective allocation of economic capital relative to the current set aside of regulatory capital. The old methods of allocation based on a simple percentage of assets and risks will no longer be accepted. The banking industry is currently driving the evolution of best practices for institutions to adopt. Insurers must increase their participation in this process given the scope of their operational exposures beyond the simple infrastructure and financial exposures of the banking industry.

Straight-through processing (STP) for insurance will have the same impact it has had on capital markets, and is a mandate as simple forms of insurance become increasingly commoditized.

In addition, competition for available premium dollars is only the result of better collection and application of information to the underwriting processes, enabling profitable micro-segmentation.

New sources of data, like telematics, event data recorders, and the licensing of this information in the adjudication of claims, will mitigate claims risk with the improvement of access to better empirical information. Fewer disputes will arise as factual information is developed from these new data sources. The industry issue will be negotiating access to this information because it will be owned by the insured.

Service-oriented architectures offer the promise of being able to surround your legacy environments, rich with intellectual property, with new web services to integrate data from different sources. The evolution of technology could ultimately solve the 40-year-old problem of what to do with old mainframe flat files that are still invaluable.

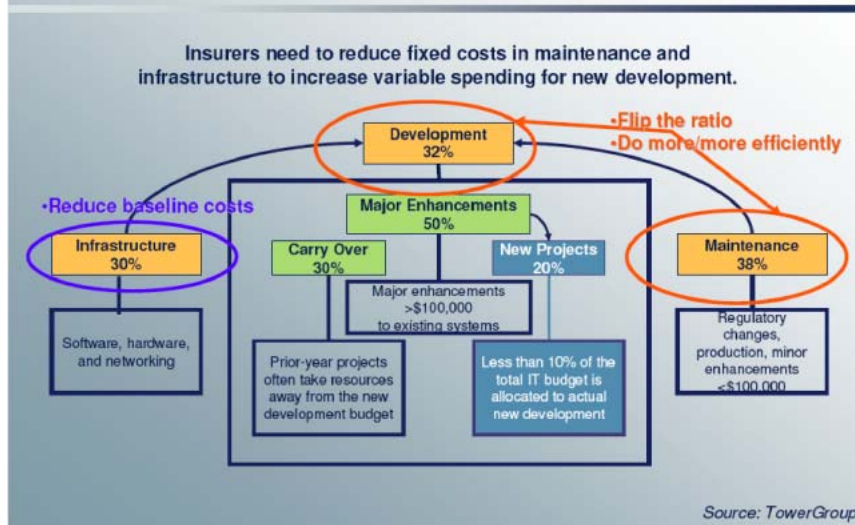
## **The Challenge**

The single largest issue for the industry is how to find the investment dollars needed to address the business goals and drive innovation.

With no clear growth engine for the industry to fund innovation, the investment dollars must come from increased operational efficiency, cost reduction, and the associated re-allocation of funds. The IT budget is already tight and the allocation of funding reduces options:



## Strategic Allocation of the Technology Budget



With less than 10% of the IT budget available for new projects, as illustrated above, the issue becomes taking cost out of the infrastructure and maintenance budgets to invest in business growth. With the current focus on and increased demands of current regulations, that component will grow—not decrease. Regulations are not new to the insurance industry. In fact, insurance companies must address multiple jurisdictions just to do business in the United States, as well as comply with privacy issues like HIPPA. Some companies are now beginning to address compliance at a holistic enterprise strategic level, as an on-going process—not a collection of specific mandates.

# Current Industry Strategies



## The L Word: Legacy

We mentioned above that carriers on average have 14 different policy administration systems. Over the years, as new insurance products were created, carriers also created their own supporting IT infrastructures as well as definitions for the data. This infrastructure is difficult to change and creates silos within the carrier that make it practically impossible to identify all of the products an individual or household may have.

Larger carriers are faced with the conundrum of the intellectual property, which is part of the legacy and is integral to the core of their business. Their intellectual property is working, but is failing to keep up with the business mandates of driving efficiencies out through distribution channels and exposing the core to enable increased self-service.

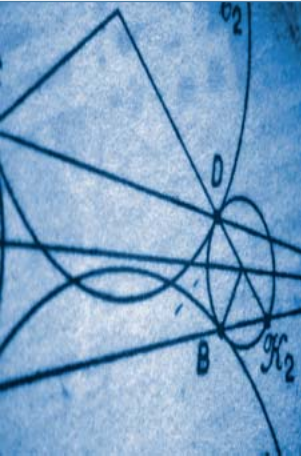
Below are three strategies that carriers are currently using to face the legacy system issues:

**Consolidate.** Replace existing policy administration systems with new technology platforms that facilitate ongoing integration of new functionality. This is the trend in the mid-tier.

**Surround.** Leverage industry standards to reduce the costs of distributing functionality to the channels and surround the legacy with new technology interfaces. Current initiatives are focused on service-oriented architectures and web services, working in conjunction with ACORD and other XML-based standards.

**Outsource.** The legacy infrastructures are increasingly being viewed as non-strategic assets. As a result, several carriers are outsourcing them by taking advantage of the economies of scale of the outsourcer to help lower costs.

# Standards and Standardizations



## Standards

FIXML has reordered the capital markets by enabling the buy side to directly access liquidity markets—a service previously delivered through the sell side. This has changed the dynamics of trade execution by increasing focus on cost/trade and de-emphasizing the intermediary relationship. Straight-thorough processing has commoditized relationships and increased efficiency. This is the future of the insurance industry.

ACORD XML standards are increasingly being adopted and mandated by major carriers within their business operations. If you are considering application packages, be sure that the applications utilize the ACORD Life or P&C standard interfaces. These interfaces are increasing the ease with which carriers can connect to their channels, while lowering the maintenance and IT deployment costs and facilitating reuse of developed solutions.

### [ACORD Surveys Top 25 Members, Shares Results](#)

#### **Role of Standards Strong and Growing**

ORLANDO, FL - May 23, 2005- How are ACORD ([www.acord.org](http://www.acord.org)) members using standards and planning their strategies? That was just one of the questions put before ACORD's top 25 Life and Annuity, Property & Casualty/Surety, and Reinsurance/Large Commercial members.

In a brief on-line survey, members described how they use the ACORD standards today, and what they are planning for in the near future. Members were chosen based on AM Best data for premiums and market penetration.

An overwhelming 90% of those surveyed said they currently have a strategy in place to implement ACORD standards and 93% said they have plans for implementing in 2005. One best practice gaining momentum is using ACORD standards for internal integration. When asked whether they are being used for internal or external integration projects, only 7% use ACORD standards strictly for internal connectivity, 39% use them for external only and the majority, 54%, use the standards for both internal and external integration.

During the ACORD presentation by Allstate Financial this year, the company stated the following:

*Seven of the 10 top life and annuity players today are driving standards.*


*Standards methodology:*

- ▶ *Adopt ACORD data and forms standards*
- ▶ *Create oversight executive committee to provide standards governance (project gate)*
- ▶ *Adopt ACORD standards as a part of IT operating principles*
- ▶ *Demand ACORD standards with vendors and solutions providers*
- ▶ *Utilize ACORD standards for internal and external integration*









XBRL, the new reporting standard for fundamental financial data, is currently a topic of joint development with ACORD. This financial reporting standard has the potential to dramatically lower the costs of internal reporting systems for compliance by making all of the financial information machine readable. Regulators will be able to drill into the source transactions for any number represented in quarterly filings with automated models. Internal reports will automatically be checked for accuracy through the taxonomy-based validation process. European consortiums are currently developing standards for Basel II and anti-money-laundering. For a copy of the ACORD white paper on XBRL go to [www.acord.org](http://www.acord.org).

### Standardization

  
TOWERGROUP  
The Power of Knowledge

## 2005 Initiatives with IT Spending

Business Driver	Objective	Project Examples	IT Spend
 <b>Operations</b>	Streamline processes to reduce manual work	Core system enhancements & reengineering, enterprise content mgmt, straight-through-processing, IT architecture standardization	48%
 <b>Distribution</b>	Attract and retain profitable producers	Web services, enterprise incentive compensation, illustrations, partner relationship management	18%
 <b>Customer Service</b>	Enhance services and delivery channels	Web services, call centers, customer relationship management, communications, delivery channels	16%
 <b>Profitability</b>	Achieve profitable and sustainable growth	Automated underwriting, fraud protection, performance analytics, business intelligence, financial reporting	10%
 <b>Governance</b>	Integrate risk mgmt with day-to-day operations	Metrics and measurement, project office tools, executive dashboards, compliance, business and IT alignment	8%
 <b>Outsourcing</b>	Strategically manage resources and control costs	Information technology outsourcing, business process outsourcing, global sourcing, processing hubs	

*Source: TowerGroup*

IT architecture standardization is a component of the 48% of allocated IT budget for 2005.

One major area of standardization attention is business intelligence tools and applications. Most insurance companies have applied BI (reporting, web-based ad hoc query, strategic score-carding, and performance management dashboards) at the departmental level. Application-creep, or the proliferation of different tools to accomplish essentially the same task in different silos within the organization, represents a significant operations cost.

You must pay for maintenance on different tools reducing your negotiating leverage due to scale; you have different personnel peaked in different tools; and you have no ability to set project priorities at an enterprise level because of resource constraints. All of these factors inhibit the ability to use business intelligence strategically and increase the costs.



## The BI COE:

Gartner group has been advocating the evolution of business intelligence to a strategic COE-based resource for several years. Leaders within the insurance industry are taking advantage of this strategy.

## The Allstate Strategy

Allstate Insurance spent the better part of the 1990s creating its own metadata infrastructure to facilitate the integration of their many product-based IT systems. Now armed with one integrated data model, it is driving towards the next levels of systems consolidations and standardization. In 2004, Allstate decided to standardize on one common BI infrastructure suite—BusinessObjects™.

### Allstate's Tool Standardization Strategy

**Redundant Current State**

	Tool 1	Tool 2	Bus. Objects
1 Reporting	✗	✗	✗
2 Queries and Analysis	✗		✗
3 Dashboards		✗	✗
4 Common Infrastructure	No	No	No

**Impact of Current State Organization:**

- ▶ **Lack of:**
  - Clarity on metric definition
  - Clear direction on use of tools
  - Development standards
  - Focus on performance management
  - Consistent data management across tools
- ▶ **Organizational overlap:**
  - Redundant tools created silo-ed organizations with overlapping functions, standards and processes

**Integrated Future State <sup>1</sup>**

- 1 **Reporting** - Powerful report authoring
- 2 **Query and Analysis** - Integrated, interactive capabilities for end users
- 3 **Performance Management** - Dashboarding, scorecarding, and alerting
- 4 **Information Infrastructure** - Broad information distribution, centralized administration

<sup>1</sup> Copyright 2004, Business Objects S.A.

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## Business Objects: Positioned for Today's and Tomorrow's issues



BusinessObjects XI is based on a service-oriented architecture that is highly scalable and reliable. We have been helping the insurance industry to consolidate data and transform it into information, and deliver reports to the right person, at the right time, in the right format. Whether the business response to the industry drivers is to surround, consolidate, standardize, or integrate, BusinessObjects XI is the right choice.

A long-term customer relationship and industry-leading performance and success is evidenced by Zurich Financial in Illinois.



Zurich has always been an innovator and is today once again ahead of the curve in addressing the top issues of the insurance industry.

- ▶ Zurich has deployed one of the first commercial insurance web-based risk management tracking systems.
- ▶ The company deployed enterprise-wide operational reporting. "We faced the added challenge of providing a single, standardized reporting infrastructure for managers and employees coming not only from different business units, but from different companies," said Ted Balzano, manager, enterprise data warehouse.
- ▶ Zurich North America also takes advantage of the powerful report design capabilities in BusinessObjects for developing a unique e-commerce self-serve policy and payment web solution, which has reduced the amount of time it takes for more than 10,000 agents to provide customers their policy information on demand.



## Driving Business Leadership with Industry-Leading Strategy Execution

### Some specifics on underwriting and 'profit over growth'



- More than two years of heavy investment in underwriting skills
- Culture whereby management does not overwrite underwriting decision
- Walk away pricing
- Development of consistent rate monitoring techniques (including impact of change in terms and conditions)
- Activity tracking reports
- Underwriting governance greatly enhanced
  - Underwriting file reviews
  - Underwriting audits
  - Reporting and referral processes
  - Governing entities (e.g. TURC, GUC)
- Senior management support of 'profit over growth'
- Hurdle levels of return enforced centrally

After two years of operating cost reductions and systems standardization, Zurich is seeing a 26% improvement in the profitability of its underwriting for commercial risks. The cost reductions taken are now benefiting the business need of improving profitability. Reporting and the development of alert-based dashboards for underwriters are integral components of this initiative.

# Business Objects: Positioning For Each Industry Driver



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Source: TowerGroup

**Operations.** Service-oriented architectures combined with a business process interface can now deliver business intelligence that not only combines data from multiple internal and external data sources, but also informs the user of actions to take to address operational indicators that are out of range, you

are now looking ahead as opposed to looking in the rear view mirror. Operational reporting facilitates daily decision-making based on information, not gut feelings, and provides mass distribution of statements, invoices, and other customer documents by multiple channels.

**Distribution.** BusinessObjects XI is based on a service-oriented architecture. It enables the interaction with web services. With our new partnership with Ipedo, BusinessObjects XI can also consume ACORD XML-based standards data and report against it.

**Customer Service.** Agent, customer, and product tracking, profitability analysis with score-carding, and exposure of core systems to customer facing organizations with web services, enable self service and ad hoc query of benefits, claims, and portfolio performance data from multiple back-end systems.

**Profitability.** Translate long-term strategies into actionable operating plans. Monitor and track performance in near real time with BusinessObjects Planning. Calculate and analyze the profitability of each product and line of business across any dimension. Drive higher performance and profitability through increased accountability and transparency to both the financial and non-financial metrics of your organization.



**Governance.** With operational BI, you can now prepare for Section 409—which requires “timely reporting of material events.” With the new XBRL ecosystem, including Ipedo and Edgar Online, you can run benchmark comparisons with automated models—and eliminate manual cutting and pasting, and normalization of information. Prepare with XBRL to reduce your compliance costs by integrating transparency into all of your financial systems. Report against the data in real time with Business Objects tools.

**Outsourcing.** Business Objects has partnerships with many companies that provide on- or off-site BI capabilities. Examples include Metavante and Fiserv.

Together with our delivery partners, Business Objects is prepared to address your business issues today, and we are positioned to help you drive the standards of the future.





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