



# Driving Change and Innovation within the Insurance Industry

WHITEPAPER

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## Executive Summary

There is an unprecedented level of pressure on today's insurers. To stay competitive, many organizations are re-aligning operational activities around the customer rather than the policy. This can only be achieved by improving collaboration, service delivery and information delivery across individuals, departments, brokers, intermediaries and agents, within and outside of the organization. The major challenge is the effective management of multiple touch points in a business network environment, characterized by disparate systems, manual processes and lack of management visibility and control.

A number of significant market developments are driving change within the insurance industry today. Higher customer expectations impacts the need to assess different distribution channels; the challenge on improving customer service in areas such as claims; and finding ways to increase the speed to market of new products.

Numerous mergers and acquisitions in the market has led to many insurers striving to realize the benefits from the newly formed business, leading to insurers now looking for ways to improve operational efficiency across disparate systems, organizations and cultures. Compliance is also having a considerable impact on the industry with issues such as regulatory reform, capital adequacy and Treating Customers Fairly.

This paper will take a deeper look at these areas in turn and consider some of the solutions available to address these challenges.

## Higher Customer Expectations

In today's economy it is easy to say, that companies need to be customer focused. While it may be a truism, this does many times represent a challenge to insurers, where everything historically has been driven by the policy, relating to the product which has been sold and the type of perils it will cover. All systems and processes in insurance companies revolved around the policy. Even today, the first question asked by an insurer or its agent is to request a customer's policy number.

*... desire to have a single view of their customer, but this was something that they had yet to achieve.*

Recent research underlines these issues. The Economic Intelligence Unit surveyed 126 European insurance executives. 36% stated that a closer relationship with their customers was a source of competitive advantage, but desire to have a single view of their customer, but this was something that they had yet to achieve.

The products that insurance companies offer are typically driven by risk factors such as postcode; are vehicles used for business or pleasure only? Very little is related to the consumer and their personal characteristics. In personal lines insurance, for example motor and household; products are extremely price driven, and it is nearly impossible to sell on the basis of features of the proposition. Many insurers admit that seeking new ways of non price related differentiators have not been particularly successful.

In a survey amongst 200 UK insurance professionals conducted by Computer Sciences Corporation, 93% of those surveyed said improving claims handling will be vital to brand recognition and on-going customer loyalty. A widely held view is that claims management has been an area of under-investment in terms of IT. In many cases, claims processing technologies are disconnected from their core systems and/or under the control of third party companies, who form part of the supply chain. This frequently leads to claims files being incomplete and extended claims settlement periods, both of which can impact the value of the claims. For insurers, processing and settlement of claims is the key area of customer contact and therefore has a major impact on customer satisfaction and loyalty. A poor claims experience is likely to lead a customer to move to an alternative insurer at renewal time.

One of the key solution areas that can help with this endeavor is Business Process Management (BPM), a solution that is designed to help businesses understand how their processes work and how to measure, manage and improve them.

There is also the need to improve the way in which insurers present their products and services to customers. Many insurers have a range of distribution strategies including brokers, direct and the Internet. However, most core systems were not built with these differing methods of distribution and the needs of the customer in mind. Most were developed to improve labor intensive internal processing leading to insurers now looking at ways to improve their "customer experience".

To achieve this, market-leading insurers are choosing the next generation of Business Process Management solutions from Cordys. Cordys helps its insurance customers address these challenges and achieve benefits such as streamlined claims servicing and increased customer value.

## Operational Efficiency

The current state of the insurance market finds many insurers having difficulty in increasing premium rates and an investment market with less than spectacular returns, leading to insurers experiencing difficulties in making underwriting profits, at the same time as not being able to make up the shortfall through success in the world's stock markets.

This has put a major focus upon cost control and/or cost reduction. Historically, insurance companies have not achieved the anticipated benefits of improved controls and cost savings through the deployment of Information Technology. The IT emphasis has been on number crunching and finance management such as reserving and accounting. The product businesses such as motor, household and travel have operated as independent operations, adopting a siloed approach, with transactions and printing of documents being the main outputs. These legacy systems still remain the IT backbone of insurance companies. This situation has been exacerbated over recent years with many companies having to cope with a growing array of disparate IT infrastructures arising from mergers and acquisitions.

Many companies believe the only solution to these challenges is to replace their core systems in the coming years to meet the future needs of the market. However, they have found it difficult to justify the level of investment required or see too much risk in a "big bang" approach to the complete replacement of their systems.

Today, there are alternative solutions available which can complement existing IT infrastructures, whilst achieving these aims.

*Systems that review operational performance are not a means of differentiation themselves; they are the key to improving the efficiency of back office operations.*

Another dynamic of operational efficiency is how companies interact and manage processes within their extended organization. Previously, traditional solutions were implemented to deal with internal processing only. In today's economy, these systems need to incorporate external organizations as well, including those who form a vital role in the insurers' value chain. For example, in motor insurance the extended supply chain might include links to repair garages, medical and legal advice; similarly in property, this may involve loss adjusters, repair and restoration companies.

For many insurers, operational efficiency means the ability to have end-to-end claims management from First Notice of Loss to the completion of the claim in terms of payment or repair. With the administration of claims processing exceeding 80% of an insurers operational costs, the entire process including case management and third party payments, is a crucial area for continual review and improvement. Operational efficiency should also address the potential for cross selling and "knowing your customer". Customer loyalty is a driving factor in most organizations, this is especially true when the products themselves are highly homogenized and differentiation by product features is difficult.

Traditionally for many companies, the challenge to achieve operational efficiency has been hampered by existing systems and the inability to justify the investment in full replacement of those systems. This is a key issue addressed by the next generation of Business Process Management solutions, with a Business Operations Platform which sits on top of the existing IT architecture, providing a framework of bridges and links between these operational silos to provide seamless integration across the entire business.

## Compliance

Without doubt, one of the key factors affecting change is the compliance and regulatory burden facing the insurance industry. Regulation impacts most aspects of an insurers' operations – be it underwriting risk or risk to a company's reputation through the efficiency of its staff and processes.

Distribution challenges have always been and continue to be, one of the key issues in the general insurance market. This has been created by mergers and acquisitions, where the insurers buy other insurers with differing distribution strategies, insurers buying brokers and, increasingly, the emergence of US style managing general agencies, where insurers simply provide the capital to companies who seek to sell and provide services to niche markets and affinity groups. This has had a major impact upon their ability to meet the regulatory and compliance needs of the market. Because of the way the industry works, insurers can find themselves involved at differing points in the relationship with their clients.

The Internet itself is a major catalyst for change and a challenge for the compliance dominated market.

In the 1990's, the UK insurance market underwent a transformation with the creation of the direct insurance market, with the formation of companies such as Direct Line, Churchill and Admiral. More recently, the market has transformed further, with the arrival of a new breed of insurers, including Internet only insurers such as Swiftcover and the development of aggregator sites, allowing easier price comparison for consumers, on commodity products such as motor and household insurance.

A likely contender for transformation in the future is the development of the commercial lines market. At the lower end of the market i.e. small commercial organizations such as the car fleet and shops; the offering is becoming mostly commoditized. However, this is a market that is still heavily led by brokers who own the main interactions with the end clients.

There are a number of initiatives in the area, including iMarket from Polaris, which is attracting significant interest from both insurers and brokers, and the London/Lloyd's market developing electronic trading environments for more complex types of insurance offerings.

Regulatory compliance is causing real headaches for the business. Deadlines for adherence to new legislation are not movable; failure to comply not only incurs major financial penalties, but can also have a detrimental impact on the business due to negative press. Invariably, legacy systems were not built to support the new wave of enforced change created by the regulatory world in which we now all operate. This is where the new breed of BPM solutions comes into the fore. The Business Operations Platform provides a seamless layer that sits above existing applications. Data and information are pulled from a range of sources, providing a new level of agility into systems and processes that will ensure that insurers are capable of meeting the various compliance demands on the business.

## Conclusion

Traditional Business Process Management solutions, many of which are now more than 15 years old, depend on certain assumptions which no longer hold true; in particular that business is predictable and unchanging. At the time they were written the thinking behind process optimization was very different. The tools were designed to deliver a level of process control over well defined, predictable, business operations.

The next generation of Business Process Management solutions, the Business Operations Platform, emerged to help companies effectively respond to the rapidly changing market conditions of today.

The Business Operations Platform supports the way business operates, delivering shared services, facilitating rapid innovation and change, while driving maximum value from existing IT investments.

The Business Operations Platform performs six key roles within the organization:

- Puts existing and new application software under the direct control of business managers
- Facilitates communication between business and IT
- Makes it easier for the business to improve existing processes and create new ones
- Enables the automation of processes across the entire organization, and beyond it
- Gives managers real-time information on the performance of processes
- Allows organizations to take full advantage of new computing services

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