



BUILDING EFFECTIVE BUSINESS AND IT OPERATIONS IN A NEW ECONOMY

TOP THREE TRENDS AFFECTING OPERATIONAL EFFECTIVENESS

- **Pressure to Reduce Operating Expenses.** In the post-downturn economy, reducing operating expenses is still a top priority for insurance carriers. Most importantly, we expect this to be a continuing trend in mature markets such as North America, although virtually every company has this as a stated goal.
- **Increased Regulatory Oversight.** Compliance continues to be an operational challenge. Future legislation is expected to increase compliance requirements at a faster pace than the industry has ever seen before. Consider this new U.S. regulation, New Guideline Safe Harbor – Revenue Procedure 2010-28, which deals with safe harbor for guideline premiums post age 100. The ruling was released on August 20, 2010, and became effective three days later — essentially, over the weekend.
- **Demand for More Responsiveness.** Both policyholders and producers are demanding improved services — including Web self-service and mobile access. In the next few years, mobile devices are expected to surpass PCs by a 4-1 margin worldwide, with most of the new growth taking place in emerging economies, so insurers must be ready to serve customers across both old and new channels. Gartner cites customer retention and operational excellence as two of the top three focus areas for 2011, with regulatory changes listed as third.

TECHNOLOGY MODERNIZATION HELPS INSURERS INCREASE AGILITY AND IMPROVE SERVICE (EVEN ON A BUDGET)

As soft economic conditions continue to hinder growth, many insurers are asking the question, “Is a new economic normal upon us?” This white paper will discuss ways for insurers to stay competitive in this new market through modernization. With a comprehensive approach, insurers can cost-effectively transform existing technology investments to reduce operational costs, minimize risk, and arm sales and service representatives with the customer insight they need to retain business, grow market share and improve profitability.

THE ECONOMIC CHALLENGE

The dynamics of the global insurance industry have not been the same since the financial collapse of 2008. Though the economy has shown signs of improvement, consumer confidence remains weak and growth within the insurance industry continues to remain slow — at least in the mature markets in North America, Europe and Asia.

To compound the problem, new regulations continue to be rolled out across the world that have the potential to drive up operating costs. This is especially problematic for multinational carriers with operations that span multiple jurisdictions. Many of these insurers manage complex system environments over multiple operations centers, making it difficult to quickly consolidate information and comply with new regulations.

Historically, in this climate, most insurers have supported profitability with cost-cutting and consolidation measures to improve operational effectiveness. Most companies hoped customers and producers would be patient as new technology initiatives were put on the back burner.

However, thanks to the Internet and social media, today’s customers are more knowledgeable and demanding than ever before — they want better pricing, instant quotes and the ability to access their account information online across multiple devices.

As insurers compete for business in North America and developing regions, such as Latin America and Southeast Asia, we are seeing that more companies are making investments in agile technologies that support business process management (BPM) and business intelligence programs. Further, insurance companies may want to consider shifting basic cost structures to a pay-per-usage model by taking advantage of cloud computing and As a Service deployment of software and resources.

Insurers that continue to rely on outmoded business processes will see their operational effectiveness decline and find it difficult to compete for today’s demanding customers.



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BARRIERS TO TRANSFORMATION

Today's typical insurer must overcome numerous barriers that limit operational effectiveness. While much of the focus is often on the complex, inflexible systems environment, other major barriers can include fundamental processes, which typically relate to the way the company is organized and the culture of each organization. Generally speaking, insurers face three major barriers to efficiency:

Processes. In today's insurance workplace, every employee and corporate resource must be focused on adding value for the customer. The business processes that enable employees must work in tandem to consistently meet the customer's requirements. Many of these processes can be automated to speed workflow and improve operational effectiveness.

However, most insurers don't take an enterprise approach to business processes. Many process issues, in fact, are the result of decentralized or "stovepiped" operations, in which many separate business units are using their own processes.

Systems. Most insurers operate multiple policy administration systems that often support individual product lines. That means call center and back-office staff must access several different systems to find the data they need. As today's insurance products and processes become more complex, the multiple systems that support them are making it harder and costlier to deliver consistent, quality service. This is a well-known problem for multinational insurers, which are challenged to leverage common technology, processes and shared services across regional and local operations.

Culture. There is a strong tendency to continue with the old, time-proven ways of doing business and not explore new alternatives, such as partnering or outsourcing — particularly at a time when budgets are tight and there is less willingness to invest in modernization technologies.

THREE TYPICAL RESPONSES

As we have assessed how multiple carriers have responded since the 2008 financial crisis, we have found that carriers have tended to respond to these challenges in one of three ways:

Status Quo. Rather than pursue new opportunities to improve operational effectiveness, some insurers will simply sit tight — and hope brand loyalty will overcome shortcomings in product innovation, service delivery and costs.

Selective. Others insurers will make modest improvements to existing systems and processes without fundamentally changing either. The selective approach can help reduce costs, but it still leaves companies dependent on inflexible systems, which slow new initiatives.

Transformational. Rather than evaluating systems and processes from a mere cost perspective, insurers that take a transformational approach focus on their overall future state vision driven by their strategic corporate goals. The transformational approach is developed to guide and coordinate significant changes to processes, systems and often the organization itself.

The transformational approach typically introduces modern technologies that leverage existing technology investments to advance strategic business objectives; it will include technologies that improve operational effectiveness, thus reducing overall costs and risk, while it arms sales and service representatives with the customer insight they need to retain business, grow market share and improve profitability.



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FOUR INITIATIVES THAT ADVANCE OPERATIONAL EFFECTIVENESS

The typical carrier's change agenda almost always includes improved efficiency as a major goal. In assessing various programs to improve efficiency, there tend to be four major strategies. (Note that not all carriers are using all of these strategies; some pursue just one or two, while more transformational carriers may pursue all four.)

The four strategies include:

Process Innovation. Efficient and well-managed processes for new business, customer service and claims are critical for providing customer responsiveness. The processes that enable agents, front- and back-office employees and claims managers must flow seamlessly, so customers receive responsive service.

Process improvement begins at the point of sale. Now that a large majority of customers and producers have access to the Internet and a multitude of computer devices, insurers should provide electronic alternatives to all paper forms. Customers should not wait hours or days for a response when many processes — including underwriting — can be automated.

Process management solutions offer another area of innovation. To better align business operations with the IT systems and business processes that enable them, most insurers have already implemented first- or second-generation imaging and workflow into their operations and, in many cases, their core business processes have been re-engineered around the capability to intelligently receive, prioritize and distribute work in their operations.

Older, first-generation workflow systems are being replaced by newer, more sophisticated systems. BPM systems have significantly more capability to add value over and above traditional workflow systems.

A key benefit of BPM systems: They allow insurers to model, design and analyze new business processes independent of their core insurance systems. That means businesspeople need not be technical wizards to design and test better processes and integrate them with the surrounding systems.

CSC has worked with numerous companies on BPM solutions that allow businesspeople to rapidly modify and refine processes and entire workflows — they can configure rules into a process that were once only able to be distributed in a written procedures manual.

As a result, businesspeople can quickly change processes to fit the changing needs of the business. This gives them the ability to enhance customer service by allowing immediate access to documents and customer data; electronically route work to the best available resources; and equip managers with real-time reports on business performance.

The key to improving operational effectiveness is to mask the complexity of back-office systems, while making their data easily and readily accessible; this gives all stakeholders visibility into the information they need, so they may better serve customers or complete a task — thus driving cost out of each process.

Operational Intelligence. Carriers need clear visibility into their operations, their customers and producers, and their competitive environment. That means improving how data is collected, analyzed and used, which will allow carriers to improve risk management, comply with new regulations and better understand and respond to customer needs. The first step in that journey is to improve operational intelligence.



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To better understand operational intelligence, leading carriers have moved from operational reports to online, real-time monitoring. This provides visibility into outstanding work, service levels, quality and individual worker productivity, coupled with the ability to predict what will be required to satisfy the workload.

The technology that allows such monitoring is generally available within a BPM system. It typically allows business users to tailor their real-time dashboard to the needs of supervisors, managers, executives and even customers.

The goal of operational intelligence is to achieve the insight needed to improve product design, improve decision making, and, ultimately, continually improve and refine the processes that enable all aspects of the business.

Systems Modernization. Over the past several decades, the industry has seen several waves of mergers and acquisitions, as well as significant expansion into newly growing economies. The net result is that most domestic and international carriers' system portfolios have a high degree of redundancy. It is a tribute to many insurance IT departments that they have kept many of these systems running for so long past their expected lifetimes. While IT budgets used to grow at a rate of greater than 5 percent per year, today's budgets are remaining flat or increasing only slightly — even though the cost of maintaining a legacy portfolio continues to increase.

To compound the challenge, maintaining multiple systems increases training and operational costs. In the new economic normal, employees must have access to multiple systems, supporting multiple products. Further, they need a common front end to efficiently capture information and look up information to serve customers.

Modern technologies that leverage the Web and a service-oriented architecture can simplify and streamline back-end processing systems, while making their information centrally accessible.

These modern technologies allow new business processes to be built outside of the existing legacy systems; the new processes are then integrated with the legacy systems to unlock their data — there is no need for a costly, time-consuming integration program.

For instance, CSC has helped several major insurers with multiple systems adopt customer service software that is able to access contact history and policy portfolio information from multiple policy systems and display the data in a single screen view. This solution integrates with our Web portals to allow customers and producers to view policy information and conduct secure policy transactions over the Internet or across mobile devices.

Another area of innovation includes cloud-based services that insurers can lease under a pay-per-usage agreement. Rather than license and manage hardware and software in-house to administer specific processes, insurers can buy the computing capacity and applications as they need them. And finally, through As a Service offerings from CSC, carriers can actually get leading-edge software with a full range of features.

Unconstrained by traditional labor-intensive approaches, the As a Service model can shave months from the typical implementation timeline. As an example, CSC's Workers' Compensation as a Service and Life as a Service offerings give insurers access to production-ready, compliant systems and support resources to launch new lines of business nationwide — via the cloud.

System modernization can also provide the foundation for an insurer's mobile insurance program. Mobile technologies have matured significantly in the past three years. Portable wireless equipment is less expensive, simpler and more durable. Wireless networks are robust and inexpensive.

As a result, more customers are demanding that agents, brokers and claims adjusters out in the field have instant access to information. Life and annuity customers also need immediate access to their fund valuations and the ability to transfer funds at a moment's notice.



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Mobile technologies will also drive cost savings and productivity gains for field workers. How much time is wasted when field workers must return to the office at the end of each work day to manually transfer information from paper records into data systems? How many more customers might they be able to support if their mobile devices automatically updated company records for them?

Though there are significant opportunities to use mobile devices to attain productivity gains and cost savings for workers in the field, insurers cannot simply give mobile devices to their workers and send them out to do their jobs. Insurers must establish new mobile business processes that properly integrate mobile technologies with existing systems.

To that end, CSC provides a rich suite of software, combined with strategic consulting and managed hosting services, to help insurers develop and implement the right mobile strategies that will drive operational effectiveness and more satisfied customers.

Multisourcing. Insurers should also examine their operations and ask what they really do well. The top performers in the next era of growth will recognize that a fully on-premises and completely in-sourced business operating model will not be sufficient to boost performance.

Carriers will need to embrace a networked operational model that includes both business and IT outsourcing to move away from the old school, vertically integrated corporate model. Offloading functions that are necessary for running efficient operations, but don't directly affect your audience, will free up more resources to focus on creating a better customer and agent experience. Selection and management of those partner relationships will be a critical success factor.

STRATEGY ROADMAP

Most insurers aim toward a future in which their new products are quickly launched, effectively sold and efficiently serviced with a personalized touch.

In reality, most insurers are hampered by too many products, complex labor-intensive processes and multiple systems.

In the new economic normal, then, how will insurers establish an overall strategic context for technology choices that can evolve with changes in technology and adapt to shifting business priorities? What are the right strategic moves to make and when should they be made?

Like any journey, finding the answer to those questions requires a good roadmap. A roadmap requires a technology provider with deep insurance industry experience that will:

- Assess your current state with an objective eye, as well as an exhaustive methodology and evaluation process.
- Help you realign your business processes to advance your strategic business goals.
- Identify opportunities to apply modern technology innovations that make the most of your existing technology investments, while helping you attain operational effectiveness and, therefore, the ability to grow your market share and profitability.



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ABOUT THE AUTHOR

Bob McDonald, an executive advisor with CSC, has spent more than 20 years helping insurance companies transform business processes and implement new technologies. He can be reached at 713.660.6766 or rmcdona4@csc.com.

FOR MORE INFORMATION

For more information about CSC's solutions to increase operational effectiveness, call **800.345.7672**, email inforequests@csc.com or visit www.csc.com/erm.

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THE AMERICAS

3170 Fairview Park Drive
Falls Church, Virginia 22042
United States
+1.703.876.1000

EUROPE, MIDDLE EAST, AFRICA

Royal Pavilion
Wellesley Road
Aldershot, Hampshire GU11 1PZ
United Kingdom
+44(0)1252.534000

AUSTRALIA

26 Talavera Road
Macquarie Park, NSW 2113
Australia
+61(0)29034.3000

ASIA

20 Anson Road #11-01
Twenty Anson
Singapore 079912
Republic of Singapore
+65.6221.9095

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