

# The Insurance Council of Australia automates reporting to meet growing regulatory demands.

## Overview

### ■ Challenge

*Faced with a host of complex regulatory reporting requirements, Australia's insurance providers needed a powerful system in place—fast—without derailing their existing budgets and processes.*

### ■ Why Become an On Demand Business?

*ICA, representing insurers, needed to help its members respond to these demands in a way that minimized its costs and enabled seamless, modular growth as usage expanded.*

### ■ Solution

*ICA teamed with IBM and IBM Business Partner Axe Group to create an automated compliance reporting system. ICA members hooking up to the system pay only for what they use—and stay focused on providing insurance. The use of open standard technology facilitates integration for all members.*

### ■ Key Benefits

- *Estimated 50% reduction on administrative costs related to compliance reporting*
- *Avoidance of millions of dollars in upfront provisioning costs*
- *Ability to consolidate software licensing costs by as much as 90% through the use of Linux Virtual Services*



*ICA's 61 member groups include insurance and reinsurance companies, Lloyds underwriters, intermediaries and agencies from both the private and public sectors. They account for more than 90 percent of all insurance business transacted in Australia by authorised insurers.*

Across the global financial community, few countries match Australia for the dynamism and vitality of its financial services sector. Growing at nearly 10 percent annually and employing more than 300,000, the Australian financial services market is an integral part of the overall Australian economy—to which it adds \$40 billion per year—as well as the global financial system<sup>1</sup>. To a large extent, the health of Australia's financial markets can be attributed to regulators' consistent—and in many ways groundbreaking—efforts to create a climate of transparency and stability for financial transactions. While financial service providers have enjoyed the

*“ICA members needed to adapt to rapidly changing regulatory requirements, yet remain focused on their budgets and the competition”*

*– Allen Mason, CEO, ICA*

<sup>1</sup> 'Globalisation of Capital Markets: Implications for the Australian Community', Richard Humphry, Managing Director & CEO, Australian Stock Exchange

### On Demand Business Benefits

- Estimated 50% reduction on administrative costs related to compliance reporting
- Avoidance of millions of dollars in upfront provisioning costs
- Ability to keep IT budgets focused on strategic initiatives
- Ability to incrementally grow the system as usage grows
- Ability to consolidate software licensing costs by as much as 90% through the use of Linux Virtual Services
- Support for standards like XML and J2EE facilitate integration with ICA members—speeding adoption

*“The key challenge of the project was to optimize resource efficiency with very high peaks and very low troughs of system usage.”*

*—Michelle-Anne Lunn, ICA Project Manager*

growth engendered by this climate, they have also been forced to adapt their businesses to major regulatory changes that made it all possible. The most important of these was the Financial Services Reform Act (FSRA), a far-reaching initiative that sought to improve consumer protection by expanding disclosure and licensing requirements for providers of retail services. Among the most sweeping provisions was the requirement that retail service providers regularly report their compliance with these new regulations to the Australian Securities and Investments Commission (ASIC), the agency responsible for market integrity and consumer protection. Failure to comply—which would preclude a company from offering services in Australia—was simply not an option.

For insurance companies, these reporting requirements represented a disruptive and potentially costly new burden. In addition to their own compliance reporting, these companies needed to enable the thousands of brokers and agents operating within their respective pipelines. On top of that, the entire reporting scheme needed to be in place within a very tight timeframe. Meeting the new requirements meant creating new systems and processes that would interface with those of the ASIC. But with strong competitive pressures driving cost control across the industry, insurers were wary of investing in them for two key reasons. First, IT is a critical competitive factor for insurance companies; any resources—financial or human—spent on non-core programs are viewed as taking away from strategic initiatives. Second, insurers needed the most efficient way to handle the highly variable processing requirements related to reporting, which was done on a monthly or quarterly basis, or whenever there was a rules change that needed to be acknowledged to the ASIC. Even taken together, the infrequency of reporting activity led to average utilization levels of less than 10 percent—all the less reason for a company to invest in a dedicated system.

### Competitors united by the goal of minimizing cost

So despite the intensity of their competition, Australian insurers shared one common interest—minimizing the collective impact of the FSRA mandates on their operations, while at the same time being responsive to them. The Insurance Council of Australia (ICA), a Sydney-based organisation representing the interests of the Australian general insurance industry, emerged as the ideal organization to bridge these interests. Still remaining, however, was the challenge of creating a technology solution that was flexible enough to solve all of its members’

reporting needs concurrently, while also open enough to integrate with each member's disparate systems. Like its individual members, ICA also sought a path that would enable it to focus its limited resources on its core mission—supporting its members on regulatory issues—and not on the deployment and support of IT solutions. At the same time, ICA sought a way to avoid investing in too much capacity—a real risk given the “short peak/long trough” pattern that would characterize reporting needs—by adopting a variable, usage-based pricing model.

#### **Meeting the need through a flexible, user-pays solution**

To address this challenge, ICA worked with IBM Global Services e-business Hosting Services and IBM Business Partner Axe Group Pty Ltd to create a centralized compliance hub that automatically uploads regulatory data from individual ICA members to the ASIC. Initially conceived by a group of founding members, the solution is hosted on IBM infrastructure and managed by Axe Group. Operationally, the system's key function is to automatically upload data to a central database, create specialized reports and then route them to the appropriate parties in the insurance pipeline—all driven by rules-based triggers. To facilitate integration between ASIC and the insurers' disparate backend systems, the system transmits all data in XML format. The system also provides users with realtime access to these reports.

In addition to meeting all of ICA's complex and rigorous functional requirements, the solution's standout quality is the use of a metered, usage-based pricing model that promotes cost optimization on two levels. First, at a high level, it enables ICA to avoid the cost of provisioning and supporting infrastructure. Second, the solution's ability to track utilization at an extremely granular level—based on MIPS, storage and bandwidth—enables ICA to pay only for what it uses, and to charge individual members (whose reporting volumes vary widely) for what they use. This capability enabled IBM and Axe to meet the common needs of ICA's members, while at the same time ensuring true cost equity among competitors.

ICA selected IBM as its core infrastructure provider on the basis of its flexible service delivery model, its strong knowledge of the insurance industry and its proven ability to work with partners. To design and deploy the core hub solution, ICA chose the Axe Group on the strength of its Axelator business automation platform, whose flexibility would enable the rapid deployment of the system with the FSRA's tight timeframe. At the heart of the solution is IBM Managed Hosting - Linux Virtual Services, which enables ICA to run an expandable number of virtual Linux servers on a fully managed IBM eServer zSeries 990 server—each with its own allocated capacity, storage and bandwidth—within security-rich logical partitions (LPARs) on the zSeries. In this respect, Linux Virtual Services is the cornerstone of the solution's variability and scalability. With the system handling sensitive financial data, the need for industrial-strength security and authentication

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## **Key Components**

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### *Software*

- IBM WebSphere® Application Server - Network Deployment
- IBM DB2® Universal Database™ Enterprise Edition
- IBM Tivoli® Access Manager for e-business
- IBM Tivoli Storage Manager
- SUSE LINUX 7.0 Enterprise Server

### *Servers*

- IBM eServer™ zSeries® 990

### *Services*

- IBM Managed Hosting - Linux Virtual Services

### *Business Partner*

- Axe Group Pty Ltd

### *Industry Solution*

- IBM Insurance Solution for Distribution and Services
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capabilities was absolute. To achieve this, the solution employed IBM Tivoli Access Manager for e-business, which complemented the mainframe's strong native security features. The actual hub, a J2EE-based Java application, runs on top of IBM WebSphere Application Server, while all hub-related information is stored in a central database running IBM DB2 Universal Database. To maximize resiliency, the solution employs IBM Tivoli Storage Manager for standard backup and restore functions.

#### **Pay as you go...and grow**

By adopting a pay-as-you-go solution, ICA and its members are able to minimize their upfront costs and optimize their cost structure going forward. Indeed, by automating reporting processes, ICA expects its members to decrease their relevant administrative costs by more than 50 percent, enabling them to channel their resources into their core businesses. On the systems front, members can rest assured that ICA's hub operates at maximum cost-efficiency. While usage-based pricing is the key factor, the solution's use of open-source Linux technology on the zSeries also plays an important supporting role by enabling a dramatic consolidation of software licensing costs. The reason: while traditional software licenses are priced on

a per-processor basis, Linux enables a single license to be spread across a number of virtual servers within a single mainframe. The result: as the solution grows, average licensing costs fall.

And with system expansion a key part of its plans, the system's inherent scalability—based on an ability to add capacity on demand—is expected to prove increasingly crucial to its success.

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