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Driving Growth in 2011: The Insurance Carrier of the Future
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I would now like to turn things over to today's moderator, Bob Hyle, Editor in Chief of Tech Decisions. Bob, please go ahead.

Bob Hyle: Okay. Thank you and welcome to today's web seminar, Driving Growth in 2011, the Insurance Carriers of the Future. Our speakers today are Barry Rabkin, Principle Analyst with Insurance Technology for Ovum, and Maneeza Malik, the Worldwide Industry Practice Leader for IBM. They will discuss business and IT trends that will impact insurance carriers in 2011 and beyond as well as share key findings and insights from a survey, which involves insurance carriers various geographies and segments of the global insurance industry.

We'll pause after the first presentation and run a live poll, in which we would appreciate your participation. Following the poll, Maneeza will share how leading carriers worldwide are building smarter insurance processes, leveraging technologies such as BRMS, BPM analytics and business intelligence and how a greater focus will be placed on the use of BRMS in these processes. We will conclude the webcast with a brief Q&A session.

And with that, I'd like to introduce our first speaker, Barry Rabkin from Ovum. Barry?

Barry Rabkin: Bob, thank you very much. Today what we're going to do is to go through Ovum's ideas and insights and opinions of how insurance companies need to drive growth in 2011. And I'd like to start off with a quote and this crystal ball, because we are pundits after all, in the analyst community.

What you see depends on what you believe. Now a lot of folks know, they've heard the saying that seeing is believing. Seeing is believing. But I'm going to turn that on its head -- what you see depends on what you believe.

So if you believe that the marketplace, after the financial crisis, will be similar to what it was before fall of 2008, you probably won't be changing your strategies or tactical initiatives. On the other hand, if you believe that the financial crisis was a disruptive force, reshaping the insurance marketplace, you, as insurance executives, will feel the pressure to change.

Our beliefs at Ovum are shaped by talking to insurance companies, surveying insurance companies on a day-to-day basis and writing our surveys at least once a year.

So I will take you through these four areas. The 2011 marketplace. The marketplace insurers will face in 2011, including trends. Then generating smart growth. What are the paths to achieving smart growth in the 2011 marketplace? We're going to discuss business imperatives and strategies.

Then we're going to segue into the technology investment areas, on our surveys, and these are the technologies insurers say they're going to be investing in in 2011, as well as the technologies that we believe insurers should be experimenting with.

And then finally, we'll wrap up with profiles of leaders insurers. What are the attributes of leading life and property casualty insurers in 2011? Specifically looking at the strategic initiatives and the operational initiatives. Then we'll have a final slide that brings it all together.

So let's start off by looking at 2011 marketplace. What will the marketplace look like in 2011 and, because I'm somewhat of a cynic, in 2012 as well. Maybe even 2013.

I'm not going to read the various text boxes under these slides -- under each of these icons. When I look at the 2011 marketplace, based on who we've talked to and our surveys, what we've read, our analysis, our research, our reporting, to me, it goes something like this. Regulatory overreach, volatile financial markets, low interest rates, high unemployment, pressured and stressed consumers, an aging workforce, cautious companies and an expanding digital marketplace. You could almost put it to music for the 12 days of Christmas. Basically 2011 is not going to look all that good. And we're going to go into a little bit of that in the next slide.

So what are insurance companies facing in 2011? Not good news is the bottom line. Except for the digital marketplace and the increasing number of digital appliances that continue appearing, making information more accessible, more immediate to consumers and the producers. And given that I'm talking to folks, I think, mostly in North America, when I say producers, I do mean insurance agents and insurance brokers.

So what are the trends that we see here at Ovum that insurance executives, IT executives, will be facing in 2011. And I know a lot of you are used to the top ten or the top 12 predictions for the next year. We do things a little bit differently here at Ovum. We look at three key business trends and then we discuss the technology. So what are the three key business trends we think that insurance executives are going to be facing in 2011?

First, the regulatory reform will trigger industry structural changes. And by that, we mean that multi-line insurers will question if they should remain so. If you have both property, casualty and life insurance operations, you might wonder should you have both or should you split off one of them and sell one of them?

Life insurers have been rebranding themselves for decades and decades as financial service firms. And the financial crisis got them to realize they've been hoisted on their petard. That perhaps they should not have branded themselves as financial service firms, given the recession and given the financial crisis and given how the marketplace and Congress feels about financial service firms. Nothing wrong with being a financial service firm, but it is interesting in that the financial crisis came along and said, maybe we're not banks. Maybe we're not investment companies. And I'll say we because I grew up in the insurance industry, the first 20 years of my existence, actually working for insurance companies.

Now on this regulatory reform, we're seeing stricter financial viability is going to be required. Solvency II is right around the corner and as you folks know, who have international operations or are subsidiaries of international insurers. While that date continues to move, it does look like the beginning of 2013 is a fairly, I'll say, solid as much as solid can be, given Solvency II's movement to date. But you have to start getting ready for it if you haven't already.

Systemic risk is going to be what the regulatory drums are going to be pounding on. I have spent a good part of my last few years, five or six years, in property casualty and we should really not be affected because we're not contributing to systemic risk. I understand that.

Life insurers, they may have some issues there. The new Office of the Federal Insurance Regulator, how is that going to play, both next year and in the years ahead? We all know we've never had a regulator of the insurance industry at the federal level. It is something to be concerned about. Yes, supposedly they're going to go to the insurance commissioners first before they start bugging the insurance companies, but who knows how it's really going to play out? And maybe gridlock that we're going to see in 2011 is going to slow that down. But putting all this together, there's going to be less money for operations, customers and channels.

The second trend is the post-crisis economics of less offers insurers both pain and gain. Are consumers still frightened into frugality? And I think the answer to that, as we all know, is probably yes. But there's a longevity risk, regardless of how frightened consumers are, there's a longevity risk that is pressuring countries, corporations and consumers. How are we going to take care of an aging society?

The P&C insurers' pain will continue as the soft market continues. Yes, we've seen the surveys, we've seen the III, we've seen enough stories telling us there should be more profitability next year, in 2011, but it's a question of the quality of that profitability.

Life insurance will have an opportunity to replace the chunks that are taken out of the entitlement society. As more and more retirement pressure and savings pressure is put onto consumers, and as the aging society takes hold, particularly in 2011, when the first baby boomer, theoretically, retires, those people are going to need their retirement plans in place, and they're going to know -- they're going to have know how do we take care of our retirement strengths.

So annuities, some sort of a whole life, and I think, given the financial crisis, we're talking whole life here. We're not talking equity-sensitive products. I'm not sure consumers are really going to go for equity-sensitive, equity-linked products, either variabilizing universal life or any of the equity-linked annuities. But whole life, yes.

Perhaps a bare-bones long-term care, and I do realize that Met seems to be getting out of the long-term care business. You could have knocked me over with a feather when I saw that.

But perhaps a bare bones long-term care plan, depending on what happens with the Healthcare Reform Act, any other additional benefits that might be funded by life insurance, woven into long-term care. So those are the first two trends. Regulatory reform, post-crisis economics of less offers insurers pain and gain.

And then the third is really not a throw-away. It is an integral part of our society, of our marketplace, of doing commerce. An expanding digital domain will reshape insurers' go-to-market strategies. The web use and access grows unabated. I'm sure you've all seen that Google has a new eBook reader capability where you don't need an actual eReader tablet. You can just access these books once you buy them, on an IP-enabled device, I believe.

The 2011 marketplace is really the mobile marketplace. Mobility is here. If you don't think it’s been here already, it's here now. And along with that, insurers will have to slowly realize they are in the digital media business.

I hear a lot of consultants and analysts and others talk about the digital marketplace. That is true. But it's really a digital media marketplace. And insurers are in the digital media business. You publish information, digital information. You consume digital information. You store digital information, whether it's the claim forms, the policy applications, X-rays, whether it's structured data, unstructured data. That's all digital media content.

And we believe that insurers will continue to take small steps, using social media. It's not going to take off, by any stretch of the imagination, but there will be an increasing number of insurers that will be experimenting with social media, either to develop platforms that their policyholders or producers could use, one platform for policyholders, one platform for producers. Or perhaps monitoring third-party social media to get a better handle on what's being said, reputation management, brand management. What is being said about your insurance company? We see a small take off, a continued small take off, in continued use of social media.

What about insurance IT budgets? We ran a survey in the April through June time period of 2010. We asked 150 insurance executives worldwide this question. These are the results in North America. These are the results from 60 North American insurance IT executives. We asked, how will the financial crisis impact your total 2010 IT budget? You're probably asking, what about 2011? That's the next slide.

And what we came off here was efficiency, not growth, was the watchword. And for those of you doing the math, 24% chose efficiency, 18% chose no change, 28% chose growth, 30% chose cost control. In other words, 72% chose any option but growth. So in 2010, they're saying anything but growing. Only 28% chose growth.

Now what about 2011? What did the insurance executives say about 2011?

Two-thirds, when we asked how has your IT budget grown or shrunk and how do -- from 2009 to 2010, but more importantly for this discussion, how do you expect it to change from 2010 to 2011? Two-thirds expect their IT budgets to be flat. That's of the 60 North American life insurance IT executives.

If you're wondering, what about the other two geographies, EMEA and Asia-Pacific? EMEA was about the same and Asia-Pacific expects growth. They expect significant growth, as a matter of fact.

So what we have here in North America is two-thirds of the IT executives saying flat. Sorry. Last year was efficiency, going into 2011, we may have to use it for efficiency again. But there's a glimmer of hope. There is a glimmer of hope. 26% expect their budgets to increase, either slightly, 1% to 5%, or significantly.

Now with these flat budgets, and with very few increases, how are insurance companies going to grow?

We're going to discuss the business imperatives, four business imperatives, and two strategies. Regardless of how much money insurance companies have to play with, or not, as the case may be, there are four business imperatives that they must develop initiatives to support.

The first one, and this is regardless of whether you're a life and annuity or a property casualty, you must demonstrate exemplary market behavior. Congress is going to be looking at the insurance industry. It shouldn't, but it's going to be. Various regulators are. And one could argue whether they should or should not. But we have to take it as a fact that they are. So we have to demonstrate exemplary market behavior.

What does that mean? It means compliance to all the regulations that are going to be coming down the pike and all the regulations that are facing us right now. It means no turning. No red lining. It means adherence to [NZA].

Years ago, after the earth's crust cooled, I started off as a life actuarial student. I never passed. I was never smart enough. I went into marketing. But I do keep up with the life insurance industry and we all know about the churning. We all know about the need for NZA to even come into existence in the first place. We can't do that anymore. Not in this environment. In fact, we shouldn't do it at all anyway. So exemplary market behavior.

Second, we have to become risk aware and prepared. And by that I mean coherent enterprise risk management programs. Enterprise risk management that looks at both external events and also internal risks. Enterprise risk management that looks at the demographic shifts and what the risks are in those demographic shifts or looks at climate change and the risks that are inherent in climate change.

In North America, we dodged one heck of a bullet, with all of those hurricanes that were forecast at the beginning of the hurricane season, and not any of them made landfall, if I recall, in North America. Europe's another matter. They got hit hard by a lot of storms. We were luckier here in North America.

The third imperative is to ensure long-term financial viability. I'm not telling you folks anything you don't know, particularly on the life side or in the property casualty side and commercial P&C with the long tail risk.

We are in a long-term business. So we have to ensure long-term financial viability. That means we have to be good at performance management. By performance management, I mean having the analytics in place to track outcomes to the strategic objectives that were put in place. By financial viability, I also mean very strong asset liability matching.

And finally, we have to provide a compelling customer experience. I'm very big on customer management and not necessarily customer relationship management. I only want a relationship with my wife, personally, but I want the insurance company to know who I am, what I own, the services that I had, and I want a consistent experience across all channels. And I don't think I'm alone. And I think the customers and prospects and producers will expect a consistent experience that, to use an old phrase, that your insurance company is easy to do business with.

And I'm an old guy and we've been saying that forever. But that has to be one of the imperatives. Provide a compelling customer experience, easy to do business with. That also means easy for your customers, your policyholders and your producers, easy to find the information that they need, for the producers to find out where the new business is in the pipeline, the business acquisition pipeline. All of that, taken together, are the four business imperatives.

Now, what about strategies, going into 2011 and 2012?

I show four strategies here, but there's really only two that come into play. Not the briar patch, because that's a safety strategy. It's a no-growth strategy. It's a cost cutting strategy, streamlining processes. That's not good enough. That's not going to cut it.

Venus fly trap? Opportunistically pursue growth? We don't think that's going to cut it either.

What you need to do is take on more risks, and you can either take on risk from a cultivate standpoint or you pursue business in existing markets, so that would mean you would have to strengthen your existing relationships with policyholders and producers.

Or explore where you pursue business in new markets. And that means having a strong presence or building the strong presence in new markets, having strong brand awareness, a flexible channel mix, reputation for being easy to do business with, as we talked before, again, need for analytics, segmentation, target marketing and collaboration across all various types of form factors, particularly the mobile form factors.

The one about the technology investment areas, we're going to look here at three specific areas. Where are insurance companies saying they're going to increase their investments, off the survey? What are the most important IT strategies they're telling us? Off the survey. And what new technologies, not that new, really, should insurance companies be piloting?

Now let's look at the first one. We asked, in our survey, which of the most probable four IT solutions your company is looking to increase investment in over the next 12 months. So through 2011. And you can see that business intelligence and customer relationship management garnered the most, not that much more than IT network security, but still garnered the most. In other words, insurers plan to become more informed and to be able to better manage their customers in 2011.

I'd go even further. It's more than insurance companies being informed insurance companies. Given that the marketplace is becoming a digital marketplace, a digital media marketplace, for us that means that the marketplace is becoming more like an ecosystem, more like a complex adapted system.

And in order for species, or insurance companies, to succeed in a complex adaptive system, insurance companies have to become adaptable. You have to be able to adapt very quickly to changing market positions. And a necessary condition to become adaptable is being informed. The use of analytics. The use of rules. Whether it's straight-through processing, whether it is workflow. So you're much more agile or the analytics become more informed and how what your customers want, and by customer relationship management, we should also think of producer relationship management as well, and what your producers need and want as well.

Now I'd argue, from the results of the survey, and it's maybe because I love geographic information systems, that 3% is too low. I didn't expect that to be up in the top four, as which of the most probable four IT solutions. But I was hoping geographic information systems would come out higher.

Why? Because we're in the insurance business. It's all location. It's the risks that are attendant to the location. Certainly, for the property casualty folks.

On the life side, you need GIS in order to do better and stronger target marketing segmentation. Not only of your market, so your potential prospects and your existing policyholders, but also for your agency location, or the agents that -- the agencies that you might want to build or develop, in which areas? So in GIS, I was hoping, would have a much higher number than 3%.

The other number here, our enterprise content management, I found sort of surprising that that was also low or it's depressing that it was so low. Because 80% to 85% of the content that insurance companies have is unstructured data. How are you going to manage, how are you going to understand, how are you going to react to your unstructured data if you do not get enterprise content management skills? But, okay, end of soap box.

Next, we asked which of the four most important IT strategies that your company will use over the next 12 months? I hope this is right, software as a service, 21%. Now in the survey, we did not define what we meant by software as a service. We didn't define what we meant by Cloud. You can see, Cloud's hanging in there at 11%, a little further on down. So if we're really ambitious, we would say that maybe around 30%? Maybe under 30%? If they had the choice of four, so maybe it's somewhere between 20% and 25% are saying that software as a service gives them one of their four most important IT strategies in 2011.

I've got to see it to believe it. I'm a creature of the insurance industry, I would expect that service-oriented architecture to be much higher than 17% and to be in first place, but the insurers we talk to, it's all about SOA and web services. Hardly anyone is talking about software as a service. Cloud is just something that might produce rain. It's not a deployment strategy that they're looking at right now. Personally, I think they should be, but they're not.

But -- so we'll see how these numbers play out. We do the survey every year, and so next year we'll see if this is -- if this tracks.

Rich internet applications at 16% and that was good to see because more and more data, the digital media marketplace, more and more of the data is unstructured data, is rich internet, it is rich media and so you need rich Internet applications in order to manage, massage, act to, react to all of that data.

The ITO and BPO down at the bottom is not surprising to me. The last five years, by the way, I was with IBC, financial insights, I led the insurance team there. And this is consistent. I've had discussions with a lot of technology vendors who say, well, we see BPO is going to be a much larger effort for North American insurers and I just wonder what Kool-Aid they're drinking. In Europe, yes. In Asia-Pacific, yes. Here in North America? Not so much. So that was not surprising. That was -- the bulk of those numbers were consistent.

By the way, on the horizontals, there are insurance companies using BPO for the horizontals, finance and accounting, procurement, human resources. But as the guts of what makes the company run? No.

We think that there are certain technologies that insurers should be quickening their experimentation with. If you were to mentally draw two lines, if you were to draw a line right above GIS and distribution management, on a diagonal, all of the technologies below that line, GIS, distribution management, predictive analytics, et cetera, those are all past. Those are all historic technologies.

And then if you were to draw a line right underneath Cloud, the only thing in the present would be social networking. And then the two above the line would be in the future, and that would be Cloud and semantic technologies.

And we believe that insurance companies, first of all, should have very strong capabilities in all the technologies under the past, if you will, that includes GIS and distribution management. But they should be building up capabilities in social networking and beginning to experiment with Cloud and semantic technologies. Semantic technologies, text data mining, unstructured data, and that's what we mean by that.

So finally, profiles of leading life and P&C insurance. And as I was putting together these final slides, I thought, well, there's going to be a, well, why are we doing this? So I thought we'd start off with a question, and you can see the answer there as well.

What will your policyholders, prospects and producers expect when they conduct the results of your company in 2011 and 2012 and 2013 and 2014 and 2015 and et cetera?

I think the answer is providing a world-class customer-centric experience in the rapidly forming digital marketplace. That's the why. That's why you use analytics. That's why you use rules of management. It's why you streamlined your core administrative systems. It's why you use financial management. It's why. It's why. It's why. It's why. It's to provide a world-class customer-centric experience.

Ted Levitt, who was a marketing professor in the '40s and '50s, used to say that there are only two processes that any company has. Getting customers and keeping customers. That's it. Everything else is a subset of those two companies -- or those two processes. That's why you're in business. It's to get and keep customers. And, of course, we know, from the insurance industry, it's the get and keep profitable customers. But that's why we're doing all of this. This is the why of the IT investments.

But let's take a look at the leading insurers in terms of we're going to go to market with coherent strategies and strong operational initiatives. And we're looking at strategic initiatives as those that are aware, adaptive and agile and operational initiatives that are effective, efficient and informed.

Let's look at the strategy one first. And you can see that we have some advice on aware and advice next to adaptive and advice next to agile.

On the aware, initiatives for the external environment. Digital interconnected mobile commerce, completed at network speed. Because that's what [M-Commerce] does. It completes, it conducts itself at network speed. And there will be increasingly more global commerce done. Whether it's by your agents or other field staff, for the P&C people, whether it's the claim adjusters for the life people, the doctors or the medical examiners in the field. All of that will be done, increasingly more of that will be done, by mobile devices.

And then you need awareness for what's happening within the company. The need for transparency or interconnection and information access and sharing. That's a good reason to have collaborative communities and social networking within the company itself.

And adaptive. Create all digital processes between home, office and field. Including agent on-boarding and agent authentication. I'm really pushing on the agent and the agency, because the studies that I've done in the past, on distribution management. And in the last few years and finding that if you look at all the processes, all the value chains, that connect within the home office of the insurance company, in between the home office and the field and the home office and the agencies, those processes that connect the agencies and the home office are the least digitized. There's still too much paper going on there.

So how can you get people on board faster? How can you authenticate them faster?

Of course, in business acquisitions, claim management, billings, all these key processes should all be digital. You should not need the paper at all. Create and strengthen multi-channel distribution approaches with this new media digital marketplace, a multi-channel conversion strategy is critical.

And finally, creating collaborative platforms for product development. So you get your agents and your field staff, your home office staff, have a place to go to, to talk internally, if you will, and brand management and monitoring for third-party social networking. We talked about that. Policyholder communities. There are insurance companies that have set up policyholder communities.

And then finally, agility. Learn lessons from customer-centric industries. Not necessarily insurance industries. In fact, I might argue that there aren't that many insurance companies that are customer-centric. No, you don't need to send letters or emails to me. I've been in the business for 35-plus years. Yes, there is a few, but not too many. But you can learn lessons from customer-centric industries, which move faster to leverage new or emerging technologies.

And finally, building operational platforms for flexibility. Apps on steroids, if you will, to both add products and eliminate products.

And then, finally, actually it's the next to the last slide, Johnny Carson would say, wait a minute. You brought it all together a little bit too soon.

From an operational standpoint, this type of a grouping, I think, is something that insurance companies, based on our research, insurance companies might want to consider. A go-to-market grouping, a core admin systems grouping, a financial management grouping and the capture of the information between -- within and between all of these groups.

In other words, underling capabilities, much like apps for the iPhone or a BlackBerry, looking at your functionality in terms of those apps, which really just cries back to object-oriented programming and object-oriented concepts. A lot of times, I just want to scream out Gary Booch was right, one of the godfathers of object-oriented programming.

This now brings it all together.

Who will be the leaders? How will we know who the leaders are? They will be the ones who provide a seamless and coherent interaction experience. They will be the ones who enable their field staff to perform their tasks wirelessly. They will be the ones who quicken the renew business, acquisition and billing management processes. They do it all electronically.

They will be the ones who leverage all data, structured and unstructured. They will be the ones who provide collaboration platforms. And finally, they'll be the ones who use social networking for corporate communications, agent-agent communications and employee-employee collaboration and communication as well.

And now I'm going to turn it back over to Bob, I bet. Yes?

Bob Hyle: Yes. Thank you, Barry. I appreciate it, and I enjoyed your insight here.

Before we go to our next speaker, though, we're going to have a poll question. So if we could pull up the first poll question, we've got two of them actually. And we'd appreciate you taking part here.

The question, as you can see, is which insurance processes are you planning to improve in 2011? And your options are policy administration and underwriting, claims processing, distribution channel, sales and service, all of the above.

So if you would mark those, I'd appreciate it. And while you're doing that, I'll remind you that we were going to try and get to some questions at the end of the program today. So please go to the Q&A function on your screen and type us in a question. And if we do not get to it today, I'm sure we will be able to get back to you post-webinar.

So now can I see the answers to the poll question? And 25% for policy administration, 10% for claims. Distribution is 10%. And sales and service, 30%. And all of the above, 25%.

So we'll discuss those -- we'll have our speakers discuss those after we bring up poll question number two. So if we could have that, please.

And the poll question number two is, how would you best describe your processes and IT environment today? Is it disjointed silos and manual practices? Business rules that are hard coded or decentralized? SOA and web services? All of the above? Or, my favorite, I'll use other.

So you can, please, submit your responses to that right now. And as you're doing that, I'm sure -- I will tell you that our next speaker is Maneeza Malik of IBM, and why don't we have the answers. Could we call them up now? The responses?

Okay. Disjointed, far and away the winner, 50%. Okay.

Why don't we have Maneeza and Barry, if you care to respond to either or both of those poll questions? Maneeza?

Maneeza Malik: Well, I have to say, I'm -- it's interesting to see these results because from working with concerned carriers, various segments of the industry, we are very much seeing these trends and the challenges that are highlighted, for instance, on the processes in the IT environment side.

There are a lot of silos and disjointed processes, a lot of insurance companies, through some mergers and acquisitions, and it is through that there is a lot more focus today around policy management systems, revamping policies and underwriting ratings systems as well as enforcing the sales and distribution [centers].

Bob Hyle: Barry, did you have any comment on either of those?

Barry Rabkin: Well, one of the comments I have is we had asked a series of questions in that same survey that I showed you some results. And one question was, how many separate systems do you have for policy admin for billing, for claims? Do you have one? Do you have two to three? Four to five? Six or more? Ten or more?

And most of the insurance companies, worldwide by the way, other than Asia-Pac, so I should say North America and EMEA, most of the insurance companies, either on the life side or the property-casualty side, have multiple systems, more than two, more than five and actually more than six.

And we asked a second question, which I call the Jay Leno question, which was, in how many of those systems do you plan to reduce? How many of those questions do you -- how many of those systems do you plan to keep? And a colleague of mine said I should have asked how many do they plan to add? But we found that, as you might expect, insurance companies have a lot of old legacy systems and they don't intend to replace any of them.

Bob Hyle: Okay. Well, thank you for your insight on that. And now we're going to turn over, for her presentation, to Maneeza Malik. Maneeza?

Maneeza Malik: Thank you, Bob. Let me just bring up the next slide.

So Barry spoke to us on how agility and efficiency are still key drivers as the industry plans for 2011. And a big part of reinforcing distribution and sales channels, or ensuring that sound risk management guidelines are enforced consistently across product portfolios and lines of businesses and channels, while at the same time adhering to changing market and regulatory conditions, is to look at how business decisions across processes are automated and optimized.

Business decisions, essentially, reside in every process that spans across insurance operations, from core systems, core applications, such as underwriting claims to sales and services, distribution and asset management and finance.

So the slide that you see up on the screen, and you look underneath those tabs, policy admin, underwriting and rating of claims, billing, distribution and so forth, these are all various applications in different parts of the business that you have insurance or you have business decisions. And business decisions essentially take the form of how do you determine who is eligible for what types of products, what risk they represent, and how will you price your product for upselling and cross-selling? So when building insurance operations for 2011, carriers are considering a mix of technologies with the RMS being a key enabler to achieve optimum results.

Going back to the earlier comment of efficiency, there is a push towards doing more with less, that's one side of the equation, but also with the processes that you have, how can you build efficiencies into those processes to benefit from savings from returns? And part of my presentation today is to highlight how carriers worldwide are leveraging business flow management systems in combination with other technologies to achieve some measurable gains.

So moving on to the next slide, this is an example of an insurance company. They're a major property and casualty carrier with a global presence. They had some classic challenges that we find in our industry that just about every carrier has faced or is facing in the organization. They essentially grew through mergers and acquisitions and eventually ended up with multiple policies and systems, more than three, and they -- these systems were meshed together. So the -- this number of policy admin systems they had were in the neighborhood of upwards of six.

Then in their old environment, business decisions or business tools were essentially hard coded and decentralized. And by being -- by decentralized, I mean, residing in the databases, Excel spreadsheets, to even some best practices being enforced manually by their senior underwriters.

So it would essentially, within -- from their IT standpoint, it would essentially take them over eight -- oh, sorry, five months in this type of environment, to implement risk and rate changes, and business and IT essentially had no visibility in how rules were changing and impacting their process. Moreover, there was no consistency in how risk was being assessed or subsequently, the right rates were being assigned. And a large majority of the policies that were being underwritten were being handled manually.

So their goal was to streamline their underwriting process and add greater transparency and agility. Speed to market was the driving objective for this carrier, the ability to improve breakthrough processing, the ability to roll out new products faster, perform what-if scenarios and ensure consistent enforcement of rules supporting the underwriting process and drive a more profitable book of business.

In this process, they also wanted to empower their agents and build a tighter relationship with their distribution channels by creating more of a guided selling approach, so when an agent comes online, requesting a close -- or requesting information, behind the scenes, it's the concept of rules that are essentially determining what sort of information should be pushed out to the agents.

They are essentially -- what they did was they streamlined the whole process and built a BRMS-based underwriting process in an SOA, leveraging, in addition to BRMS analytics, BI. And BRMS is essentially used throughout the underwriting process for determining eligibility scoring and assessing risk to pricing. These are all your pricing rate rules that are constantly changing to referrals and enforcing various compliance tools that vary from geography to geography. And on the pricing and risk front, BRMS is tightly coupled with analytics to create flexible risk and rate tiers that are linked to customer segmentation strategies at a granular level.

So, the benefits to this carrier in building this process have included an increase in SVP rate from 17% to 76%, increase in new business quotes by 40%. They are today implementing changes, whether these are eligibility or risk or pricing changes, under a week from what used to take them five months plus. And there's also greater collaboration between business and IT today. Actuaries are actively involved in performing what-if scenarios and business analysts that are working with the actuaries are essentially creating, maintaining and testing the rules.

So the capabilities that are enabled in this office, in addition to a better interaction with the agents, a more guided approach to interacting with the agents to being able to actively -- proactively segment unacceptable business and trigger activities at various stages during the process, as well as getting underwriting decisions at multiple points during the process. So this is all still a -- their decisions for services across lines of businesses, with a more empowered interaction with the agent channel.

The next example is on personal lines for auto and homeowners. And this is underwriting and ratings. And this particular insurance company has a major presence in Europe and Asia-Pac. And similar business challenges, prior to opting for the solution and building the processes they have today, it used to take them over a month to implement eligibility and risk changes. They were unable to accurately assess risk. And a lot of the rules were essentially hard coded.

So they have also built a BRMS-based underwriting process. BRMS is used for eligibility, risk assessment, pricing, referrals. They're using analytics in combination with that on the ratings side. And the benefits that they've seen, thus far, is that they're implementing rate changes in 48 hours versus what used to take them a month. And pass through rate has gone up by over 80% from around 60% prior to deploying this new e-system.

The next example is on the claims and the lab assignment creating front. So this is actually a health insurance carrier. They're a major health insurance carrier in the US. They had multiple legacy systems in place, somewhat of a spaghetti architecture. They decided to go down the

SOA path and leveraged the BRMS, BPM and analytics. So they created shared decision services and they're leveraging BRMS across multiple applications, including throughout their claims process, ratings, lab assignments, among a couple of other applications.

So some will say the benefits they've seen, they've increased pass through rate by 96%. They've improved productivity by 30% and speed to market gains of over 50%. So essentially, they're implement those changes in days in real time versus what used to take them one to three months. And given that they created share decision services, they have some 4,000 rules in production and the advantage of having shared decision services is that in some cases, some of the business rules that are created, they are common across multiple applications, across multiple channels. So when that rule change occurred once, it's executed and it's implemented across the board.

The next example is a major life insurance carrier. They are both in life and non-life. This is the -- in Asia. And in this particular example, they are essentially using business rules throughout their claims process and they're combining rules that fraud -- sorry, rules with analytics for fraud detection. So essentially, on the fraud detection side, rules are used to determine when to invoke a model, and based on the results, what actions should be taken. They're also using rules to score multiple attributes for identifying suspicious claims. They're using business tools to determine which claims should be routed to which team, based on skill sets. When should a claim be routed to an investigation team?

So essentially having comprehensive audit trails as the rules that are supporting their fraud activities, supporting their claims activities has enabled them to shorten the processing and inspection time of 10,000 claims from two weeks to one day. They have also reduced fraud costs by 30%, resulting in savings in the millions.

The last example I wanted to cover with you today is around commission payments. So commissioning is key to energizing direct sales force and distribution channels. This particular insurance company is based in Europe. They have deployed this application, again, at SOA. They've created shared decision services. They are using business tools to enhance their commissioning applications and essentially business tools are used for data validation, to enforce the regulatory compliance and these regulatory rules vary from country to country as well as calculation type rules. This is essentially managing specific terms and conditions during the life cycle of the contract forward to tie their enumeration with marketing campaigns as well as at a granular level by product or geography.

And the benefits for this carrier has ranged from speed to market gains for data flexibility, accuracy and transparency and how commissions will [be enforced] across geographies, agents and products to increasing agents -- to improving the agent retention rate as well as increasing sales as a result of tighter links with the marketing campaigns.

Now when you think about BRMS, BRMS essentially allows decision logic, which resides in code, or in multiple locations to be extracted and managed separated from core application codes, so that it can be easily understood, maintained and reused across the organization. By externalizing rules and application codes, business experts can define and manage decision logic, reducing the amount of time and effort required to update decision logic and production systems, and increasing the organization's ability to respond to changes in the business environment.

So BRMS essentially comprises of three core components. There is the centralized rules depository, where all rules are maintained, ensuring greater efficiency, consistency in how rules are enforced throughout the process, regardless of where the transaction is coming from. There are advanced home management features for both business and IT users, and permission management, who has access to what set of rules and what can they do with those rules, the custody management, versioning to testing of simulation tools. And BRMS essentially provides an entire rule management platform, which comes with the right set of tools for each user involved. And finally, there is the one-time engine allowing production systems to access and execute division logic management in the BRMS.

Now if you're combining that with BPM, this really, in a SOA environment, this provides the ability for decision services to be used across multiple business processes. So, essentially, enabling carriers to create local and global rules, if you will, whether these pertain to a specific process or multiple processes, across multiple geographies.

And addition to facilitating decision change and reuse of business tools across processes, we used to say the BRMS with BPM allows process models to be streamlined and stabilized, which is important for measuring and monitoring process performance. And the life cycle of the process and the life cycle of automated business decisions can be separated and the decision changes can be implemented without requiring redeployment of the process. So, a lot more flexibility and combining the two and creating those clear decision services.

In terms of the BRMS environment, essentially, the environment is such where service users have various capabilities and the ease with which they can create the rules and an environment for IT as well, to be able to test and create those rules as well.

So audit trail's extremely important for -- it's about every process, every application in insurance. The audit trail's include the ability to visually compare differences between rule set versions as outlined in this snapshot, as well as keep track of tasks executed, rule versions, individual rules, which rules are fired, when and how often, which rules came into effect or expired. Essentially, a comprehensive audit trail of rules and decisions rendered, enabling carriers to prove compliance to both internal guidelines as well as various regulations.

So to sum up, when should you consider a BRMS? When there is a need for greater transparency in terms of obtaining comprehensive audit trails and rules supporting a given process. Need for speed and agility, when business users are increasingly asking for greater visibility or ownership of the rules, where IT is perhaps under pressure to support the business side of the organization. And also whether it is a -- whether you are going down the SOA path or you're looking to enhance existing systems, whether it's modernizing legacy systems or enhancing the systems that you have in place, BRMS is typically a good fit to address that. So it's all about flexibility and transparency, while leveraging the existing IT investments that you may have made internally.

If you would like to obtain more information, I'd like to encourage you to visit both IBM and Ovum's websites. If you're interested in downloading information, whether it's white papers, case studies, recorded webcasts or sign up for some upcoming webcasts on the BRMS front, there's a direct link that's provided on this slide.

And we look forward to meeting you at the next two big events, the [Portaloma] Conference in May, and the IBM Users' Conference that will take place in April in Las Vegas.

And with that, I'll turn the floor back to Bob for Q&A.

Bob Hyle: Okay. Well, thank you very much, Maneeza. We are getting close to the top of the hour, so we're going to go through these quickly. We're going to start off with you, Barry.

How do you see the role of the micro-insurance model in the US in the next few years? Will this model move from the emerging markets to the first world?

Barry Rabkin: Thank you very much for that question. I don't know the answer. I'm not following micro-insurance, so -- and I do tend to be North American focused. I have a global remit, which is why we do the surveys for the world, but I'm not following the micro-insurance trend at all. So I can't answer the question.

Bob Hyle: Okay. Well, we'll go try another one then. Maneeza, we're going to back to you.

What's the split between business and IT users when it comes to testing, creating and maintaining business rules?

Maneeza Malik: I'd say a lot of this depends on the corporate culture that we find in a given insurance company. There are a lot of insurance companies. Some of the examples I cited today where from the very onset of, in fact, when -- right at the development stage of the projects. Business -- line of business individuals were actively involved, whether it was -- if it was the underwriting or rating application, I'm talking about actuaries or senior underwriters.

So business users, more and more, are very heavily in working actively with IT in creating, testing and maintaining rules. One example I cited, the very first example I cited today, for -- on the commercial lines side, the IT was essentially pushing the rules out into the production, but business users, the actuaries, were doing what-if scenarios and business analysts were essentially creating and maintaining the business tools. So we see a lot of that today in life as well as in health and P&C insurance.

Bob Hyle: Okay. Barry, we're going to go back with you.

What trends are you seeing with regards to leveraging social networking sites by insurance companies?

Barry Rabkin: Now that I can answer. As part of our survey, we asked the insurance companies how they plan to use social networking and it was pretty consistent. Actually, it was consistent, whether you talked to insurance companies or the results from North American insurance companies, EMEA insurance companies or Asia-Pacific insurance companies, the answer was basically, "We're not. We're not going to use social networking. "

Now we're going to ask that question every year. And it was about 75% to 80%, so they were not. Actually, I think it was more than 80%.

So we will use -- we will be asking that question every year and we'll just see if that needle moves. And hopefully the needle will move, or else insurance companies not using social networking will be basically putting blinders on. And, by the way, GTM means go-to-market. I just thought I'd throw that out as an answer to another question that's sitting on there.

Bob Hyle: Okay. All right. Well, it's right at three o'clock, so we want to -- Eastern Time, I should say, anyway. And we want to thank you all for taking part today. And in particular, I'd like to thank Barry Rabkin from Ovum and Maneeza Malik from IBM for giving their insights on an important topic for the future. So, again, thank you all for taking part and have a great day.

Operator: Thank you, again, to the speakers and audience for joining us. This concludes today's presentation. You may now disconnect and we hope you have a great day.