Insurance Viewpoint

Operational excellence

Australia: April 2008

Welcome to the launch and first edition of PricewaterhouseCoopers' Insurance Viewpoint in Australia. Insurance Viewpoint brings our thought leaders in the insurance industry to the market to share their insights into the future drivers in the sector.

Comprised of a series of chapters, this first chapter looks at Operational Excellence in General Insurance. It contains an outlook, trends and opportunities for technology within general insurance. Each chapter includes The Way I See It – an independent, first-hand commentary from those who are out there in the industry experiencing the issues first-hand. In this chapter, we welcome IAG's Asset Management and Reinsurance Chief Operating Officer, Gerard Brown and Nick Hartry, Operations Manager, Reinsurance Operations, IAG Asset Management and Reinsurance to share their thoughts and approach.

I trust that you will find our views both informative and thought provoking. The Viewpoint section and Take Action recommendations are especially designed to provide you with insights and practical guidance.

Kim Smith
Insurance Sector Leader
PricewaterhouseCoopers

Insurance organisations with the foresight to capture critical client data at multiple stages which leverage this knowledge will then realise opportunities and improve service capability.

Operational excellence

Talk the talk and walk the walk

Cutting operational costs

The general insurance market is focused on driving operational cost reductions and innovation in response to increasing competition, pressure on premiums over the past few years. In such a softening market, strategic changes to operational (process and service) and technology infrastructure are primary 'hunting grounds' for executives seeking a sustainable advantage.

To analyse these trends, and associated issues and opportunities, this Viewpoint examines successful approaches for delivering improved operational effectiveness across service, process and technology innovation.

The Viewpoint

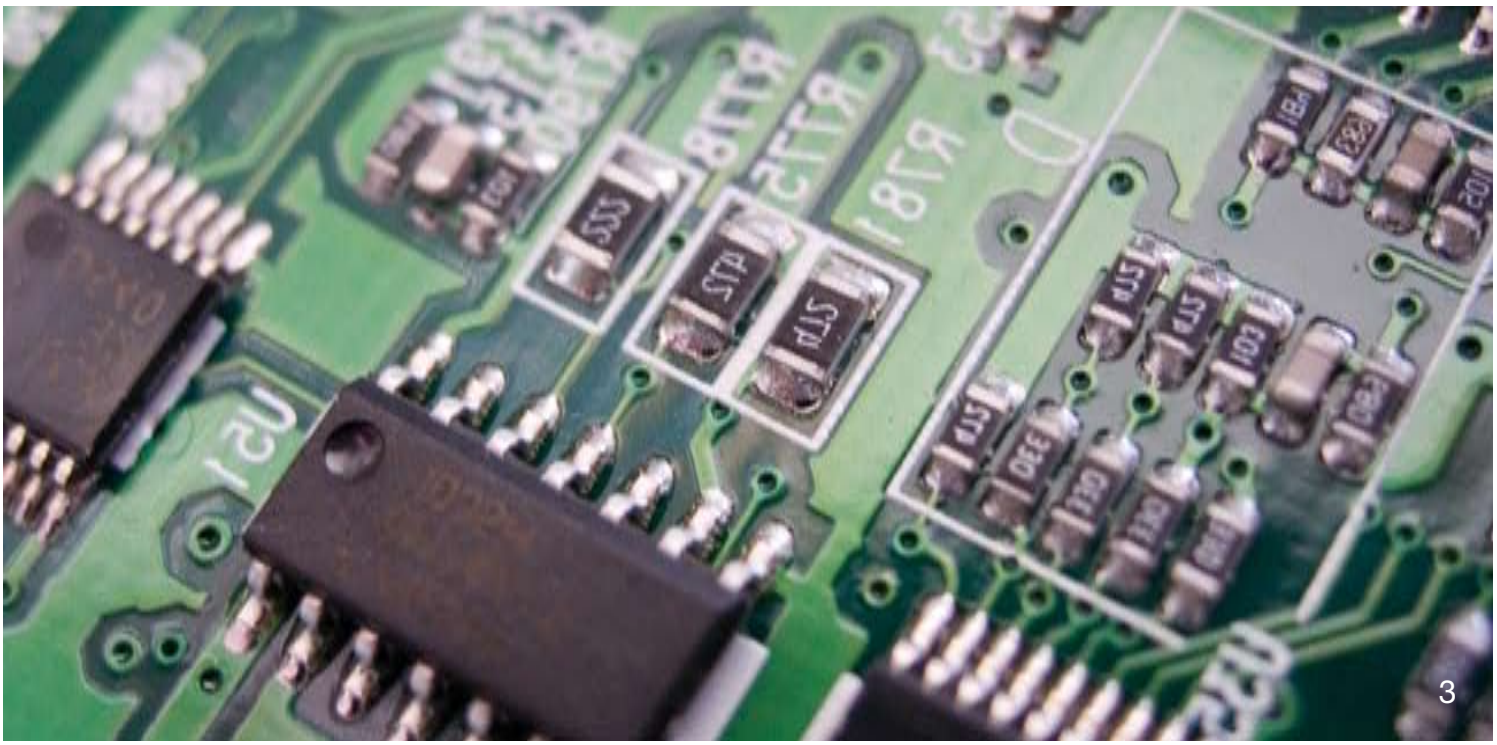
Our views around operational excellence are:

Process innovation. Further rationalisation of core policy administration, underwriting and claims management processes to form 'mega processes' across multiple products will enhance scale, standardisation and operational agility.

Service innovation. Only insurance organisations with the foresight to capture critical client data at multiple stages of the customer interaction lifecycle and to leverage this knowledge will fully realise cross-sell and up-sell opportunities and improved service capability.

Technology innovation. People factors aside, regardless of the shared services model adopted by the insurance organisation, innovation and success within technology environments will be supported by focusing on three critical elements:

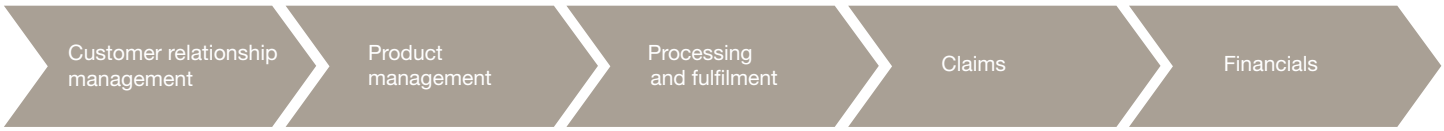
- A modular and customisable policy administration, ratings and claims engine
- A single reporting and business intelligence engine strategy
- Taking a single view of the customer.



Trends and opportunities

Process innovation

Process innovation involves re-engineering key operational procedures to identify duplication, inefficiencies or synergies in the form of insurance mega processes. Recent market trends include using offshore service providers to complete commoditised, non-value-add operational tasks and processing.



A key part of any successful outsourcing activity is 'tidying your house before inviting the neighbours' by creating internal so-called mega processes before working with an external party. This removes many of the potential benefits an outsourcer might provide as quick wins after relocating a process. It also allows organisations to better manage contractual costs per transaction and understand what processes really can be outsourced effectively.

However, process commoditisation and the creation of mega general insurance processes that can be applied to multiple products can only occur when a process is not central to the organisation's strategic value proposition. Put another way, insurers should avoid creating standardised processes out of operational areas that differentiate them, particularly those that involve customer contact.

Service innovation

Service innovation focuses on bringing insurers closer to customers to increase penetration and retention through cross-selling or up-selling product lines and improving satisfaction. For example, auto insurers are enabling customers to buy and compare products online. The number of auto-related quotes submitted online has been growing at 15% a year. More significantly, there was a 58% increase in actual online auto insurance purchases from 2005 to 2006.

Service excellence is based on knowing what a customer wants and being able to deliver it. This often means offering services proactively. The concept behind McDonald's "Do you want fries with that?" is now seen online when sites such as iTunes suggest products other people bought with an item you have selected. This means non-intrusively capturing relevant information during client interactions to enable real-time analysis. This isn't rocket science, but general insurance organisations should work to identify correlations such as why someone bought car insurance then purchased home and contents with the same provider. Recommending a similar approach to another customer with a similar profile will provide leadership in cross-selling and up-selling.

For most general insurers, making these strong up-sell and cross-sell capabilities available would involve significant long-term investment, an appetite for change and the skills to execute the program effectively. This has tended to prove an obstacle but those that do pursue this path can look forward to improving return on equity over the medium term.

Technology innovation

Technology innovation is focused on the introduction of service oriented architectures (SOAs) to complement process innovation objectives. These technology architectures are designed to deliver modular, rationalised environments and a single-platform approach for policy administration, claims management, rules and rating, and back-office settlements.

Business unit / division	Multiple product lines
Call centres	Organic growth leads to multiple providers/solutions
Business Intelligence	Many product siloed solutions, data marts and Excel
EAI* / SOA**	Microsoft vs Java vs Message Queues vs Publish Subscribe etc
Key GI Admin Platforms	Policy administration/claims processing/settlements are prime candidates for the creation of commoditised/service processing — but multiple legacy — non flexible solutions — cause the siloed approach difficult to break
Rules and Rating	Multiple solutions due to hard coded/legacy interfaces with GI admin platforms
Corporate Financial	Many product siloed solutions, data marts and Excel

*Enterprise Application Integration
**Service Orientated Architectures

The summarised general insurance IT architecture shown in the diagram presents the following opportunities:

A modular and customisable policy administration, ratings and claims solution

Organic growth and acquisition of new legacy (sometimes referred to as 'mature') systems can often create complex back-office environments.

Successful strategies for rationalisation generally take one of three paths:

(i) Identify the stronger back-office administration system that can be customised for the product portfolio and migrate all solutions to this platform

(ii) Replace all platforms with a new single, 'all singing all dancing' platform

(iii) Implement a custom-made solution to expose the business logic and workflow of multiple underlying systems through a single interface.

A single reporting and business intelligence engine strategy

Microsoft Excel-based solutions can remain an integral part of an insurer's business, provided relevant risk controls are in place. However, they should not be the sole reporting solution for a larger general insurer because Excel may not adequately manage data analytics (such as ad hoc reports, data cubes, data mining and the ability to drill down) and report generation. The unification of reporting and analytics solutions provides significant support for single customer view and SOA initiatives.

The all-important single customer view

Telecommunications carriers and banks are spending millions to gain a single view of their customers. Achieving this goal is a long journey that requires unrelenting adherence to three golden data management rules:

(i) There is one source of truth

(ii) There is one source of data schema or data dictionary that proliferates any changes in data structure or content to subscribing databases

(ii) There is one owner for all data entities.

Conclusion

Service, process and technology innovation will be key to success in the competitive general insurance market. Only insurers with the foresight to capture critical client data at multiple stages of the customer interaction lifecycle will fully realise cross-sell and up-sell opportunities. Organisations will find that creating mega processes can be an effective way to gain efficiencies and identify low-value functions that can be outsourced.

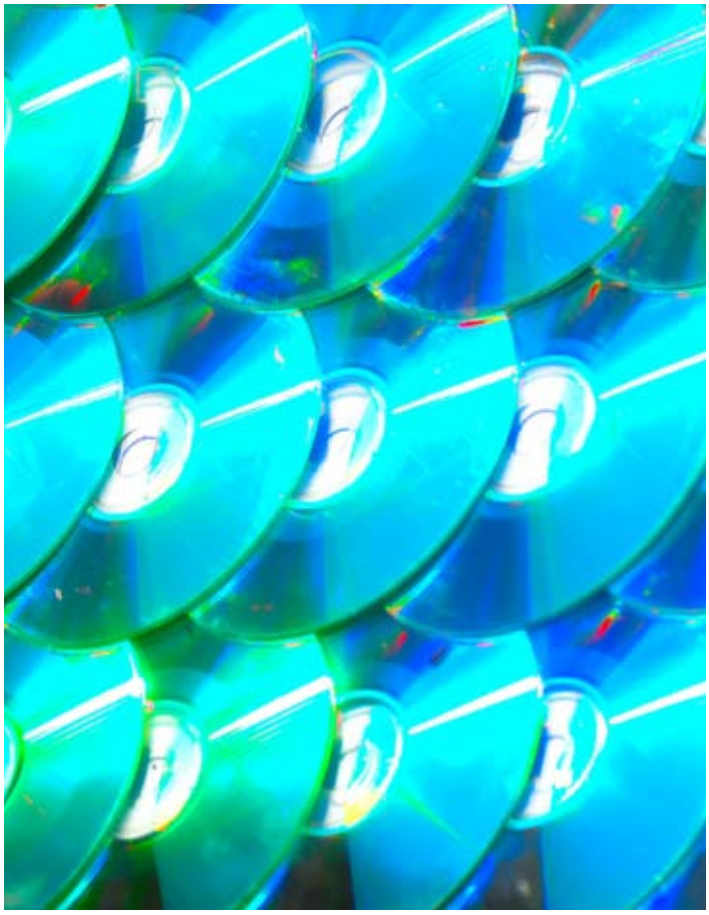
General insurers' operations can be significantly rationalised to create modular, agile technology environments. Further, the desired single customer view can be obtained though diligent adherence to proven data management principles. By aligning technical, service and operational excellence with the organisation's strategic objectives general insurers will gain significant competitive advantage.

Take Action

Process innovation. Further rationalise core policy administration, underwriting and claims management processes to form mega processes across multiple products to enhance scale, standardisation and operational agility.

Service innovation. Understand your clients by capturing purchasing habits and drivers over long periods of time, then make this information available to front-office sales staff or online channels.

Technology innovation. Develop your technology environment with a focus on modular and customisable policy administration, ratings and claims engines; a single reporting and business intelligence engine strategy; and gaining a single view of the customer.



The Way We See It

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Process

We would support the concept that creating "mega processes" from commoditised, strategically non-value add operations should continue to provide significant efficiency opportunities.

Service

We agree that the cornerstone of great service is a deep understanding of clients' needs. The wealth of data existing within many organisations continues to be under exploited. In fact, one of the main issues is mining the data to identify new touch points with the client to review their needs and explore further opportunities.

A good general insurance (GI) example of how to take advantage of a material claims scenario can be seen with Cyclone Larry. Focused Insurers in Australia took advantage of this natural disaster to contact each and every policy holder in the affected region to demonstrate a connection with the client in terms of support and assistance, encouraging retention and in time a growth in top line product revenues.

Innovation of service through product differentiation can also be further explored in Australia. The UK GI market, for example, provides products that differentiate when cars are garaged versus the risks associated when on the road — "Pay As You Drive".

Technology

The SOA bandwagon is continuing to roll, but given the ongoing complexities associated with changing legislation, unravelling technology and operations around acquisition related growth, there are further opportunities for organisations to implement true SOA solutions.

One concern within the GI industry is the ability to use technology to successfully ensure premiums are paid in accordance with product profiles (fees etc). APRA has focused on this issue within the funds management industry and there will be some pressure to ensure the technology deployed in the GI industry can demonstrate that all product profiles are applied correctly.

"Short termism" is another factor in the poor delivery of SOA environments, which can take a number of years to successfully implement. Long term disciplined adherence to a strict set of architectural standards and a long term view from the sponsors are key to delivery.

Contact Information

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Kim is the Australian Insurance Sector Leader for PricewaterhouseCoopers. He has a broad range of Australian and international financial services experience, including working in London for four years, mainly with Lloyd's syndicates and London market companies.

Kim has extensive experience leading teams providing services to major financial institutions. Kim is also actively involved with initiatives in regulatory and technical matters and has presented at seminars and published a number of articles on solvency and regulatory reforms and IFRS.

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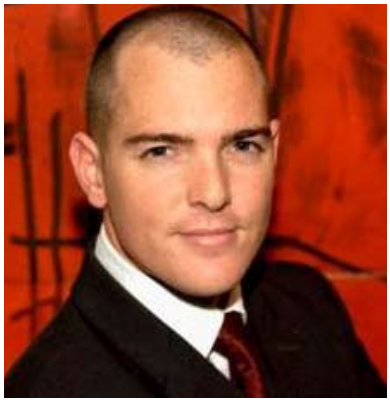
Billy Bennett a senior assurance partner at PricewaterhouseCoopers with over 25 years experience auditing entities across many sectors of the financial services industry in Australia, Ireland and Switzerland. He has been involved with the Australian general insurance industry for 21 years with a variety of roles that included learning and education, technical advice and the publication of insurance publications. Billy is part of the Firm's insurance leadership team.



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John Shipman leads the Financials Services and Insurance and Investment Markets practice for technology in Sydney. John has over 12 years experience in this sector based in London, Boston, Hong Kong and Sydney. John has derived extensive experience in supporting business transformation through technology optimisation. His recent successes focus on technology strategy and architecture, integration and large scale change program delivery.

John also chairs a National Investment Operations Forum supported by APRA and the top Investment Management institutions in the country.

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