Building
Tomorrow's Enterprise

View Point

New Business Excellence for P&C Commercial Lines

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An industry in transition

After a turbulent period of uncertain investment returns, poor economic growth, high litigation cost and sub-optimal risk assessments, the P&C industry appears to be headed for a period of stability. With a 2% reduction in combined ratio at the end of 2004 (from 100% in 2003), the financial performance of the industry is improving. However, for Commercial lines, underwriting profitability remains an issue. Moreover, low interest returns combined with high operating costs will continue to cause carriers to struggle to grow their books and boost underwriting profits.

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New approaches to secure the future

Premium growth in 2004 shrunk to 4.7% (from 9.8% in 2003), a direct result of downward pricing in both commercial and personal lines. An ISO/PCI study suggests that the commercial insurance sector will continue to bear the brunt of the downward trend in future policy pricing due to inflationary pressures. In our view, industry players must continue their relentless focus on tighter underwriting, better expense management, and on limiting geographic exposures and plugging contractual loopholes to minimize risks. In addition, the players will also need to change their mindset to ensure that recent trends of softer commercial prices do not snowball into a problem of unmanageable proportions.

These changes relate to revamping processes and leveraging technology for enhancing operational efficiency, managing risk better and raising the productivity of people and channels. Equally important will be their ability to adopt more effective approaches to ensure that they make the right strategic choices/trade-offs.

- Profitable Growth - profitability cannot be sacrificed for growth
  Forward-thinking companies will no longer see top- and bottom-line growth as a zero-sum game and seek to address profitability with as much urgency as growth. Continued focus on policyholder surplus, return on equity, and other key measures of profitability will have to be on all insurance company "scorecards" to grow with healthy profits.
- Operational Efficiency - doing more with less
  Even as the business environment and hiring pushes up demand for commercial insurance, the erosion in pricing for 2005 will make it hard to earn profits unless operating costs are controlled. In today's technology-driven world, manual handoffs in various processes, re-keying of data (instead of capture-once-use-anywhere) and paper based transactions are clearly business inefficiencies that eat into margins. And even where technology is being used, the legacy of multiple IT platforms and non-integrated technology result in higher maintenance and infrastructure costs.
- Underwriting effectiveness - Better risk assessment and pricing for increased profitability
  Increased customer resistance to rate increases combined with rising costs will make it imperative for players to improve risk profiling and predictive modeling to protect the fragile turnaround in profitability seen in 2004. Better identification and segmentation of insurance risks based on historical data help in making better-informed decisions. Enabling individual risk profiling from the current line-of-business level will improve underwriting choices and lead to increased portfolio profitability.
- Employee and channel productivity – leverage technology to increase underwriting speed
  To date, investments in field and carrier-based technologies have not been able to significantly reduce the number of manual touch points in insurance processes. Skillful use of technology in the form of better systems integration, rules engines, automation tools, sales force data sharing, portals, and end-to-end processing can reduce the number of manual touch points, thus enhancing throughput, reliability, traceability and employee/channel productivity.

Changing old habits is critical to success

Identifying transformation levers is relatively easy; the difficult task is to drive the change. This is especially because some business practices are too deeply ingrained in the current state. To successfully implement the new approach outlined above, it is imperative to address the root causes.

People

- 'Culture', lingering traditional business practices and old habits embedded in commercial insurance on the part of agents and consumers do not allow for immediate paperless processing, and make the move towards a more automated scenario difficult- especially in commercial lines.

Process

- Underwriting knowledge is concentrated in the hands of a few SMEs; knowledge sharing and management is not systemically enabled.
- Underwriters spend a significant amount of time and effort in routine tasks and hence do not find adequate time for the risk assessment and analysis needed to make the underwriting profitable.

Technology

- Due to limited system capabilities, Commercial lines traditionally have been very manual-effort intensive and hence automation benefits are less well defined compared to personal lines.
- Different systems have different naming conventions and system fields. This inhibits implementation of document management systems, which need standard taxonomy for providing end-to-end solution capability

To continue to improve/sustain business performance, carriers need to address challenges such as the ones listed above, as they have a cascading impact across the underwriting value chain. Overcoming these will significantly enhance control over core processes and associated expenses.

Important questions for Carriers

There are practical challenges to the transformation that is required and carriers desirous of changing must focus their attention on answering several key questions, such as the following:

- How do we consolidate submission information from multiple entry points in different data formats while eliminating paper and reducing cost and time for processing?
- How can we reduce or eliminate the current manual touch points in the process?
- How can submission be consolidated effectively to facilitate faster processing?
- How do we bring about a reduction in turnaround time for processing of quote, bind and policy issuance?
- How can the underwriting department route folders to analysts and underwriters based on predefined business rules driven by workload allocation, risk characteristics and loss exposures?
- How do we automate underwriting so that a significant percentage of risks go through the route of straight through processing and only complicated and exceptional risks need manual intervention?

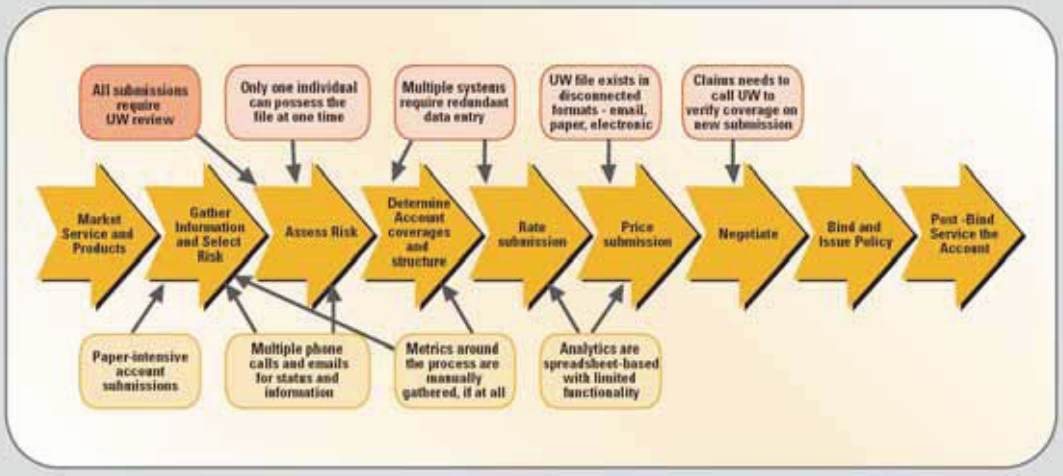

Exhibit 1: Issues across the underwriting value chain

New Business Processing is key

Infosys' view is that that new business processing is the most significant time and cost area for carriers. From this appreciation emerges a solution concept that is based on four core principles that tightly integrate a carrier's new business applications and enable straight through processing with minimum manual operations and hand offs. Exhibit 1 illustrates the common issues for Commercial P&C insurance carriers in the new business underwriting value chain. Exhibit 2 illustrates Infosys' integrated approach to underwriting, which can address the various shortcomings of the current state.

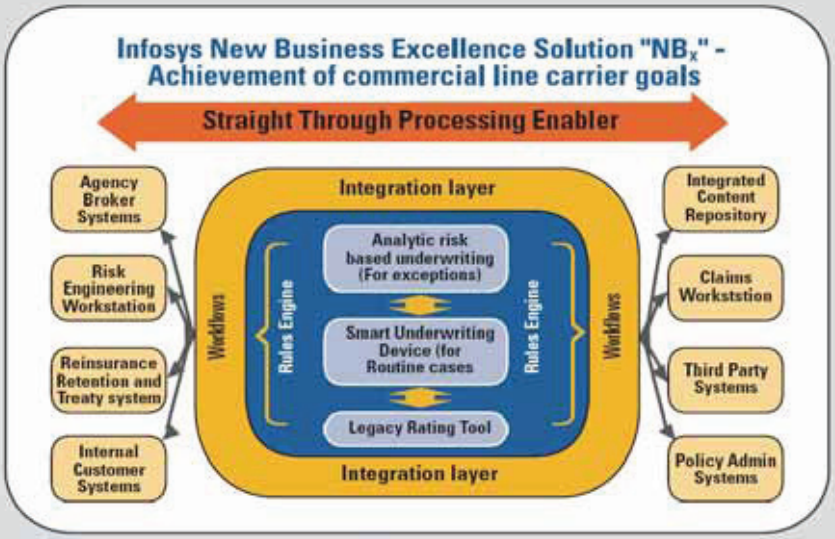

Exhibit 2: Integrated underwriting approach of the Infosys solution

1. Capturing and converting content to electronic form

- Conversion to standard format and archival for subsequent easy retrieval and also reading of key fields by either Optical Character Recognition (OCR) Technologies or use of smart forms
- Indexing the content with a unique identifier which may be any one of the following: the application number, quote number, a temporary number or a policy number.
- Consolidation of all forms of submission documents, e.g. fax, mails, EDI, emails, website uploads, etc.

2. Integrated workflow management

- Communication of receipt of application or inadequacy of information.
- Assignment to various roles based on risk characteristics with load balancing logic being a part of the business rules. Decision communication based on hierarchical rules already fed into a table-driven structure and workflow mechanism.

3. Integrated data exchange with common user interface

- Enable the connection of non-integrated systems through open standards like Web Services, Service-Oriented Architecture (SOA) and Extensible Mark-up Language (XML).
- Communicate with different systems in real time to get a complete picture.
- A workstation with a single interface to both internal and external systems that can be securely accessed either over the intranet or the extranet.

4. Business rules engines and analytics for better risk profiling

- Rules to automate workflows based on predefined Parameters.
- Analytics which would be influenced by ratings based on broker, risk, customer and risk class-related hazard evaluation.
- Rules of predictive modeling based on scores for each risk and then creating pricing tiers for better risk segmentation and profiling.

Benefits of the new approach

Infosys' approach (called the NB_x solution approach) addresses the gaps identified earlier in this paper and directly contributes to building carriers' competitive advantage. Specifically, the following benefits can be realized:

1. Profitable Growth

- Consistent application of underwriting guidelines leads to a better portfolio of risks and reduces claim incidence.
- Better risk segmentation and effective management of markets/ portfolio of risks helps in acquiring and retaining profitable segments and markets.

2. Operational Efficiency

- Reducing cost of operations by leveraging electronic forms and better turnaround time.
- Retention of knowledge capital in the enterprise reduces cost of attrition.
- Lower expense ratio with minimum underwriter Intervention.

3. Underwriting Effectiveness

- Standardization of underwriting practices reduces revenue leakage.
- Underwriting decisions will have profit objectives in addition to growth.
- Standardized rating / pricing decisions across risk. Classes preventing revenue leakage and maintain better premium levels even in a soft market.

4. Employee and channel productivity

- Increasing underwriting speed for quoting, binding and issuance.
- Increased producer productivity – seamless exchange of information between distribution channels and the carriers.

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Infosys' Insurance practice

Infosys' Insurance practice is dedicated to working closely with our clients to enhance their competitiveness through the development and implementation of innovative, value-driven business solutions. We've worked closely with customers in every facet of the Insurance business, from field services through claims processing. Every Infosys solution draws on a deep understanding of the industry. Our consulting, IT services and business process outsourcing (BPO) professionals partner with our clients to deliver the practical, rapid and highly cost effective solutions that today's highly competitive Insurance marketplace demands.

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