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Feature Story

Real Time: Ready for Prime Time?

The real-time enterprise is a reality in business today, but the insurance industry has been slow to take advantage. What do the leaders of real time in insurance know that others don't?

By Michael P. Voelker

In 1956, Taiichi Ohno had a revolutionary idea for the future of business: just-in-time inventory. In Ohno's vision, a business would schedule inventory to arrive exactly in time to replenish an item that had just been depleted, allowing businesses to reduce the carrying costs associated with warehousing large quantities of inventory that might not be used or sold for weeks or months. Early adopters of just-in-time inventory ultimately would become leaders in their industries—such as Ohno's Toyota and Sam Walton's Wal-Mart—before his method eventually garnered widespread interest.

Fast forward to the 1990s, when technologies began to emerge to transform the way insurers did business. The concept of "real time" was created to describe this transformation, where batch-processing systems, disconnected data sources, and days-old information would become relics. But is the real-time insurance enterprise ready for prime time today?

"The technologies are available [for real time]. What has been lacking is the drive from the industry," says Kimberly Harris, vice president of research at Gartner. "Theoretically, it makes a lot of sense, but insurers are not doing it [because] competitors are not doing it."

This situation ultimately will change, however, driven by competitive pressure as more companies adopt a real-time mentality and as consumers and agents, accustomed to the on-demand world of other financial services, come to expect it from insurers. Like the early adopters of "just in time," insurers on the leading edge of real time are strategizing that their efforts today are the foundation of a future competitive advantage.

Real-Time Successes

The best examples of real-time enterprises are found in the life insurance industry, according to Harris, particularly in the annuity business. "We're starting to see a trend where these [annuity] companies are asking how they can compete with investment firms," she says. In the investment and other financial services sectors, initiatives such as T+1 and multichannel distribution and service have pushed transactions to a real-time status faster than in insurance and advanced the expectations of customers and brokers.

The Guardian Life Insurance Company of America, New York, is a company Harris identifies as a real-

time leader today. Jaime Sguerra, second vice president and chief architect of Guardian Life's information technology division, explains at the same time the company was undertaking a multiyear project at the corporate level to create a service-oriented, enterprise application architecture, it also began rolling out applications that were designed to bring real-time capabilities to its annuity area.

These applications targeted both agents and customers. To its intranet portal—which agents also access—the company added a unified client view application that shows agents all the products customers have purchased from Guardian as well as a financial representative modeling tool that allows agents to project and track the agents' income. Guardian also deployed a new self-service portal for customers.

In implementing all these applications, Guardian dealt with a challenge common to many insurers: a host of legacy applications that processed in a batch mode. Guardian addressed the issue with both technological and business solutions. First, because it needed to integrate customer information from multiple sources, it created a data warehouse to store data from transaction-oriented mainframe systems, using IBM WebSphere MQ as the messaging system for exchanging the data. It then wrote Web services to deliver data to the Web-based end-user applications.

Guardian utilizes an event processor engine, a background application that continually queries the database for transactions entered at the policy level and distributes these transactions to the appropriate server, explains Shelley McIntyre, vice president of information technology at Guardian Life. Some processes can be completed immediately, such as an address change entered by policyholders into the online self-service application. Others must be pended, such as payment transactions that require fund value information that is not available until the financial markets close. The important advantage of the new architecture and applications is users now can see the current status of both pending and completed transactions. "With [only] our legacy systems, we couldn't do that," she says.

Additionally, McIntyre mentions Guardian's producer alert system. When customers access any of their account information on the self-service portal, the agent is notified of this activity via e-mail. This keeps agents informed and allows them to address proactively potential business problems or new sales opportunities.

Property/casualty carriers in general are not as far along as life insurers, and health insurers are even less so, according to Harris, pointing out the latter's efforts have been focused on issues of information security. The real-time success P&C and health do have in common is in the claims process, where they have emphasized providing current information on claims both internally and externally for better customer service.

"Most of the large P&C companies will tell you what makes them special is how they process claims," says Harris.

A common claim area P&C has targeted has been the first notice of loss, indicates John Flynn, senior vice president and research director at META Group. "This is a place where there are real, measured business results as a result of investing in [real time]. In the pre-real-time mode, [the first notice of loss] was a paper-intensive, lagging process that could take weeks to get acknowledged. Now, [insurers] can move those transactions to days, if not hours."

For example, in October 2003, AAA of Missouri, St. Louis, began using SceneAccess.net, a communications hub provided by application services provider Scene Genesis. AAA worked with Scene Genesis to interface SceneAccess to its existing Fiserv Claims Workstation system so appraisal assignments can be made by claims adjusters directly from within the Fiserv system. Using ZIP Code-

based territories, SceneAccess automatically sends the claim assignment to the right appraiser, who upon completing the estimate using estimating software, uploads the results and any digital photos taken to SceneAccess.

“From the adjuster’s standpoint, the immediate impacts have been eliminating the time to key in the assignment, not having to determine manually who gets the assignment, and getting the estimates back more quickly,” says Gail Bray, systems and procedures manager at AAA of Missouri.

In P&C, the other area where companies have made real-time advances is on the money-in side of the business. “Right now, we are seeing everyone talk about transaction services such as IVANS [Transformation Station],” says Harris. However, despite the talk, the industry is moving toward these services relatively slowly because of insurers’ fear they help commoditize the insurance product and eliminate competitive differentiation.

Safeco, Seattle, Wash., considered the question of commoditization when deciding to link directly to EZLynx, a comparative rater from Webcetera. “We believe, despite the challenges of generic sales platforms, they provide us with new business opportunities we wouldn’t have gotten otherwise,” asserts Anne Randall, vice president of automation for Safeco Personal Insurance. “And if we can just get the quote, we believe we can win not only that one piece of business, but we can win more from that agency as it experiences [the rest of] our uncomplicated proprietary technology.”

That proprietary technology is offered via the Safeco Now sales portal, deployed in 2003, which provides a single point of entry to a number of previously existing sales applications. It allows the company’s independent agents to quote and bind personal lines, commercial lines, and surety products; perform policy inquiry; and complete endorsements.

Like Guardian Life, Safeco uses Web services technologies to update back-end database tables in real time. This allows the company to make sure other systems have the same real-time information and enables underwriters to consult with agents on in-process quotations and claims staff to take action based on up-to-the-minute policy status.

“If [Safeco Now] were only a sales tool, it would be a limiting feature,” Randall says. Currently, Safeco offers personal lines auto and homeowners application capabilities directly via connection with EZLynx, but by leveraging ACORD XML standards, the insurer is positioned to provide other lines or interface with other third-party systems agents use.

Specialty insurer RLI, Peoria, Ill., has taken real-time quotation, application, and binding to the next step—policy delivery.

Specifically, the company offers a number of insurance programs, such as plans designed for restaurants, taverns, and hotels, which are underwritten by managing general agencies (MGAs). These agencies use RLI’s agent portal to underwrite, quote, and bind business. If an application passes online system edits, a policy is generated immediately, rendered as a PDF, and e-mailed to the MGA within minutes.

Many systems come into play to make this happen. Piyush Singh, CIO of RLI, explains the insurer built its online application system internally, seeing the system as a point of competitive differentiation. It connects to a rating system from Duck Creek. The company uses an internally created “document production framework” to assemble approved policies virtually and create PDFs.

Currently, only policies from program business are delivered electronically to agents, but RLI plans to roll out this real-time policy delivery gradually to most other lines of business, as well.

"There always will be exceptions, such as where we need custom coverages or manuscript forms, but our goal is to get the policy issuance done as quickly as possible," Singh says. Completed policies either are e-mailed or printed, and PDFs are stored in a repository in the carrier's content management system from Vignette, which was installed in July 2004. The Vignette system replaced a previous ImagePlus system and completes RLI's efforts to create a single repository of documents that will help ensure employees and agents have access to accurate, up-to-date policies and other documents.

As the company has moved toward its real-time goals, it has pushed more and more functionality to front-end systems. "Our approach was we were not going to try to modify [legacy] batch systems to make real time happen. We wanted to build the front ends to be Web based, real time, and highly interactive; use the back end as data repositories; and interface with the back end through enterprise application integration technology," says Singh. He describes this as focusing on the "suburbs" of RLI's systems—the outlying applications where users spend their time—vs. the "downtown" of the legacy environment.

Real-Time Roadblocks

"Moving toward becoming a real-time enterprise often involves massive work," says Paul McDonnell, senior vice president and insurance segment leader at BearingPoint.

Technology challenges are numerous, any one of which is its own separate subject for discussion: an architecture that was never designed to operate in real time, multiple applications and integration points, different data formats and structures. "The list goes on and on," Harris states.

However, there are equally important cultural challenges that must be considered. "Real time is a new way of doing things," McDonnell notes. "I see big companies spend tons of money, do proofs of concept, look at tools, and this work is done in complete absence of business context. It's a waste of time and money."

Being a real-time enterprise is a new way of thinking and working for insurers, beginning with the electronic workflow it requires.

"It still is paper- and people-intensive in many areas, and people are set in their ways," contends Singh. "Being able to operate in real time also increases the necessity that work be done right the first time."

"From a quality-assurance perspective, as soon as you put the data out, it's visible to the policyholder," says McIntyre. "The old mindset of 'I get to check it the next day to make sure it's correct' no longer applies."

But the biggest cultural challenge proponents of real time need to overcome is convincing decision-makers it's necessary. "The argument goes: 'If I can apply a real-time approach to how business is generated, I will generate more business and be a better organization,'" Flynn asserts.

While in theory that argument makes sense, in reality it is difficult to prove. "There's just too much investment, proven reliability, and reasonable expectations around operating certain processes and transactions in a batch mode that are purely appropriate," he adds.

"Over time, [real time] will have a different role, but right now, it's not seen as something you have to do to stay alive in the market," Harris points out. Nevertheless, the insurers profiled have overcome technological and cultural obstacles in their pursuit of real time and believe they have realized solid business value from their efforts—although they express that value primarily in qualitative, rather than

measured, terms.

Safeco, for example, sees Safeco Now and continued connection with third-party agency systems as a necessary feature of doing business with the diverse world of independent agents. “We want to be where the sales are,” Randall states.

“We’ve learned over all the years of working with independent agents they’re not all the same. They have differences in processes and procedures, and we therefore want to give them a variety of tools and have them use what works best for them.”

“We have reduced cycle time, and we can handle more submissions and turn them around faster, within a few minutes in many cases,” Singh affirms, adding the carrier is pairing its real-time efforts with a focus on a single point of entry for agents and staff to information and business applications. “The lower the ‘friction costs,’ the better off everyone is,” he says.

AAA of Missouri was able to calculate what Bray characterizes as a “very conservative” first-year cost savings of \$350,000 attributed to its SceneAccess project, but she observes the biggest impact is on customer service. “We view the customer-service satisfaction as the most important benefit—getting the assignment made, the appraiser out there quicker, and the check in [the claimant’s] hand quicker,” Bray says.

Guardian Life also sees the biggest impact of its real-time efforts on improved customer service. McIntyre explains Guardian customers previously were frustrated when CSRs didn’t have access to current payments and other information, but that is not the case today. In fact, the company now has earned three consecutive Annuity Service Awards from financial-services market-research firm Dalbar.

Like the early adopters of just-in-time inventory, early adopters of the real-time enterprise model view their efforts as a strategy for future success. And despite debate about the need for real time in insurance, the industry does continue to progress toward this goal, driven by internal operating pressures and external customer and agent expectations.

“[Real time] is one of the many key items on CIOs’ agendas,” Flynn remarks. “They are exploring it and doing it. They’re not resistant to it anymore, but they also are not just dropping everything else to adopt it. It’s being applied where appropriate.”