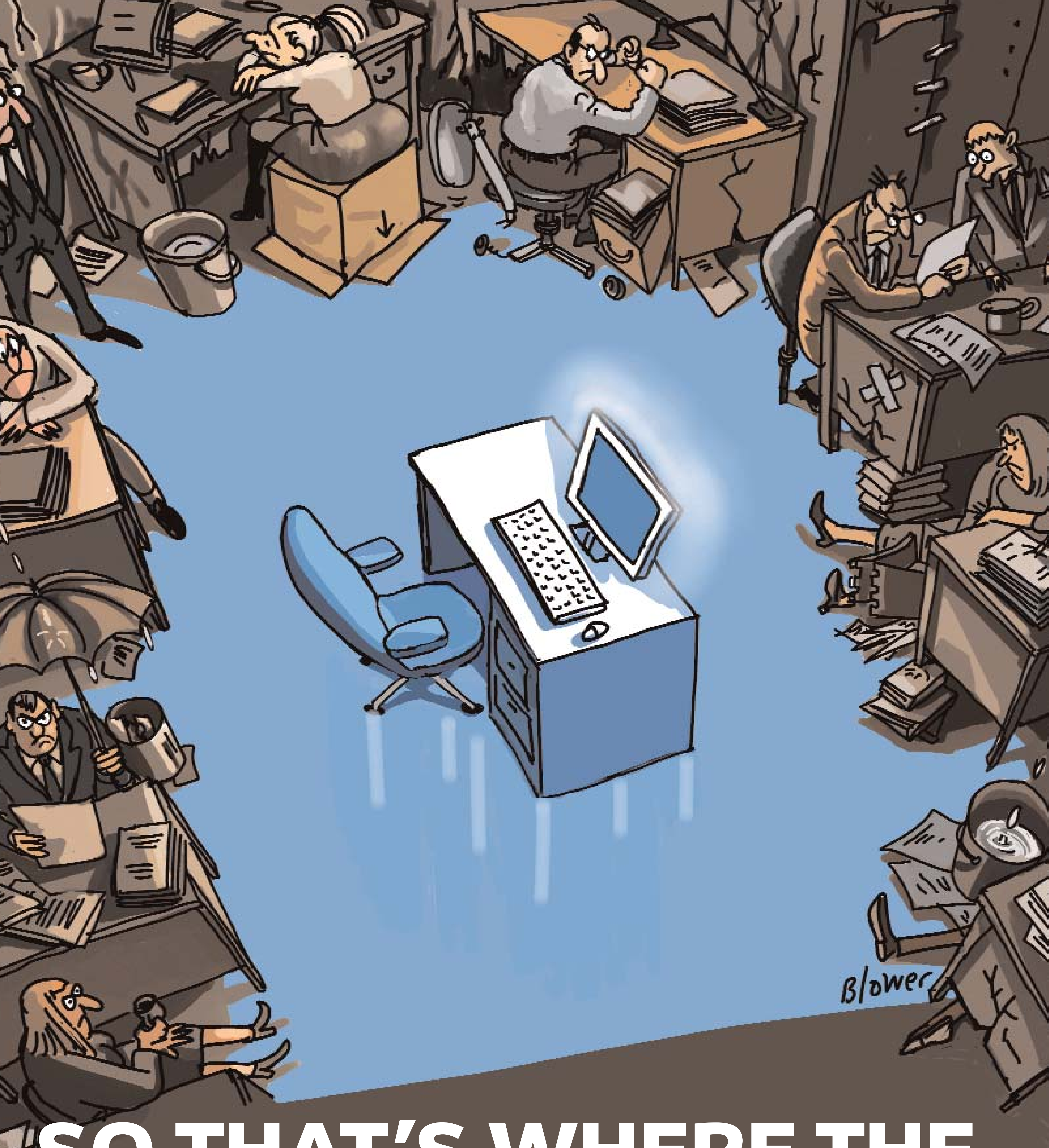


SO THAT'S WHERE THE OFFICE BUDGET WENT

Insurance companies need to cut costs as the economy lurches towards recession, but slashing IT investment will do more harm than good. Katie Puckett finds out how outdated systems are wasting thousands of pounds – and which new programs can help.

Corporate hospitality has been banned, the stationery budget has been slashed and, for some unfortunates, the Christmas party has been cancelled as companies try to cope with the economic downturn. But one thing insurers are not skimping on is IT.

As the credit crunch deepens into recession, investing in IT can be one of the best ways to control costs. That doesn't mean splashing out on flashy, faddish initiatives or wholesale system replacements. Instead, improve basic functions such as claims administration or regulatory compliance, and chances are you'll end up saving money.

"I don't think millions will be spent, but everyone is devoting more money to improve trading in the current environment," says Chris Hanks, general manager of Allianz Commercial and chairman of technology provider Polaris. "Within two or three years, almost all commercial policies could have some form of electronic trading. If we don't do it now, when do we do it?"

A survey of 200 global insurers by analyst Datamonitor in the first half of this year (see box, overleaf) found that IT budgets have remained relatively static – but they're not shrinking either.

Much of the survey's data focused on the US, but results there reflect similar patterns in Europe. Datamonitor found that 50% of US non-life insurers said their IT spending would stay at the same level in 2009; 27% anticipated an increase of 1-5% and 18% planned to spend 6% more.

Phil Nunn, Norwich Union's head of IT, says there is a chance that investment in IT could slow, although technology remains central to the company's plans.

"The credit crunch won't impact our strategy, but it might accentuate its importance," he says. "I have no doubt that for most businesses, there are propositions that may have been done in other times and won't be done now. You might have had a hundred ideas and done 10 of them; now you'll have 50 ideas and do five. We will probably see ... greater emphasis on exploiting these systems, getting operations streamlined and reducing costs."

The survey also found that globally, nearly two-thirds (61%) of non-life firms planned to invest in risk management and compliance systems next year.

Insurers face a growing regulatory burden and IT software can help – compliance software scans systems and checks to see if information is being leaked or siphoned off, for example. You can also track and store which employee is signing into which program, logging the time and date. These details can be later shown to a regulator or auditor. Data recorded on such systems can also be used as proof of compliance.

"This is going to be essential as consolidation in the sector continues," says Phil Watson, product consultant at insurance software specialist Target Harlosh.

"If banks are trying to sell off their insurance businesses, for example, they're going to need better systems in place. I don't think many legacy systems are able to provide that level of reporting. Your book might be good but, if you can't prove it, it will be hard to sell that business."

Watson says insurers have also been adopting strategies more commonly associated with lenders, such as greater data scrutiny.

In response, Target Harlosh has been integrating components from products for loan providers into its insurance solutions.

"All our insurance customers are starting to demand a lot more financials from their software," he says.

Managing risk is all the rage. But Norman Black, head of insurance solutions at software provider SAP, says claims should also be a top priority. Insurers are recognising the inevitable rise in claims linked to recession; Black believes claims technology can help curb this trend.

"Claims has been a poor relation of underwriting, and typically there hasn't been investment for 10 to 15 years," he says.

"Now people are realising there needs to be significant investment in it. Companies that have invested have seen results; the return is never in doubt."

> "We will probably see ... greater emphasis on exploiting these systems, getting operations streamlined and reducing costs."
> Phil Nunn, Norwich Union

The newest claims systems can automate the processing "donkey work", allowing staff to investigate suspect claims. Systems that can analyse trends geographically or among individual policyholders, for example, can discreetly flag up suspect claims as they arise. ➔

> “Now is a better time to invest in new technology than in a boom. Companies with crumbling legacy systems are hamstrung at the moment.”
> Mark Bates, RDT

Insurers to spend more on risk management and compliance

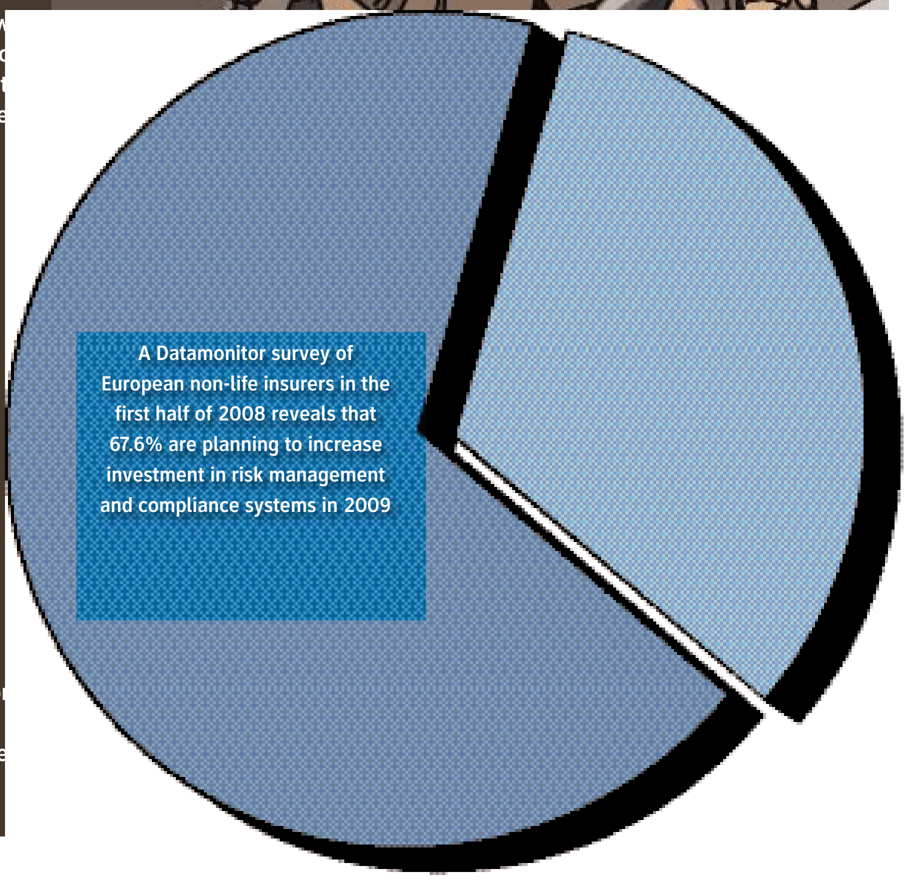
Datamonitor’s survey of global insurers and their attitude tow
conducted in the first half of this year, near the start of the ec
(Bear Stearns, the US investment bank, collapsed in the midst
research). So those surveyed gave their answers knowing the
financial system was under strain.

Sixty-eight per cent of European non-life insurers are planning to increase spending on risk management and compliance next year. This has much to do with the regulatory changes in Europe around Solvency II.

Jonathan Steiman, the report’s author and an analyst on Datamonitor’s financial services technology team, said: “The US insurers that we surveyed showed less interest in risk management investments than their European counterparts. Around 40% of both life and non-life insurers in the US said they plan to increase spending.”

He said this does not mean that the remaining 60% are cutting spending; it could mean they are holding the proportion spent in the previous year.

“Much of this can be attributed to lack of new regulations coming on board in the United States,” he said. “However, in light of the recent events, US insurers are more focused on risk management and are gearing up fo
regulatory changes. For this reason, Datamonitor expects US
insurers to spend more on risk management in the coming ye
than they exhibited in our first-half 2008 survey.”



➔ “You can start to manage claims proactively,” says Black. “If a customer reported a similar claim six months ago, it could be that when you start to look at the estimated value, it’s well above the norm. It could be valid but, rather than push it through the process, the system could put a hold on it and it can be sent off to a different department to do further investigation.”

It’s possible that the credit crunch will focus the industry’s attention on streamlining its systems. But these changes won’t happen overnight. The drive to trade electronically and automate the exchange of information between firms has been gathering momentum, but there’s still far more paper in the system than, say, the banking sector.

Allianz’s Hanks is particularly exasperated by the sluggish progress towards automated commercial lines. “There’s still lots of paper, lots of duplication. The fax has replaced post, but it’s all still manual. It’s inefficient and every stage gives opportunities for mistakes.”

Insurers can’t afford to ignore IT. Existing systems are a major source of costs, as ageing legacy hardware can be serviced only by a dwindling cabal of programmers who still speak its language.

Core systems are still lagging behind. Watson quotes the startling statistic that 10% of insurers have more than 25 individual legacy systems in their organisation. “I don’t know how they’re coping with that level of kit. It’s not just the IT itself. What about the staff training and the skills needed to manage it?” he says.

Mark Bates, chief executive of software provider RDT, agrees that IT advancement needs to happen quickly. “Now is a better time to invest in new technology than in a boom,” he says.

“Companies with crumbling legacy systems are hamstrung at the moment. They struggle to modify pricing quickly, they struggle to identify problem areas, the management information coming out of the system is lacking, and they can’t respond to changes in the market. Legacy solutions in general cost a huge amount of money to run; the cost of newer solutions is much less.”

There has been a 50% jump in the number of inquiries to RDT in the past year. Its Landscape product starts at about £500,000 for a small firm and goes up to several million pounds for larger companies. “It’s not an insignificant investment, but I know insurance companies spending £5m to £7m a year just on keeping legacy solutions running,” says Bates.

He adds that Provident installed the system and found the number of policies processed by its broker service groups and credit control departments doubled to nearly 20,000 a year.

Meanwhile, Kewill supplies middleware that translates insurance firms’ data so other firms can use it, allowing policy information to be transferred directly between insurers’ and brokers’ systems with no rekeying. Debbie Baker, its insurance business director, says one customer freed up a server that was costing £35,000 a year to maintain.

IT vendors are typically coy about referring to staff cuts, preferring to talk about strategic staff redeployment. But the implications of a dramatic reduction in administration are clear.

In the 2007 version of the Datamonitor survey of global insurers, the researcher found that companies were planning to invest in online sales channels to win new customers. These proposals are likely to be scaled back, but it still suggests there is room for improvement in customer relationship management.

Insurers and brokers will be trying to maximise business from existing customers and to slow the revolving door of punters switching providers when their policies end.

There are also savings to be made from call centres. Watson says one insurance client dramatically reduced the number of calls coming in simply by rewording customer letters to make them more clear.

“These were completely pointless calls. Looking at the actual nature of phone calls and letters doesn’t involve any technology, just investing in the process,” he says.

Some insurers have also begun using electronic document management programmes. Incoming post is scanned and automatically directed to the right department.

Watson says: “You can get a bit of kit that identifies what type of letter it is – it can be as sophisticated as character recognition.

Or if you use a bar code, it's quite easy for the scanner to identify a document coming back in and even route it to the original person who sent it out. The common theme is looking at what you're doing and automating the tasks that people churn through on a daily basis."

Know your customers

If you're going to cross-sell products to existing customers, your systems have to be ready with the right data. Few insurance companies have invested in advanced customer relationship management (CRM) systems, which can identify trends in the client base and pinpoint individuals most likely to go for certain offers.

"They're going to need some CRM there to check they're not selling something the customer already has. I've sat in call centres and seen it happen," says Watson. "I said, 'How did you know the customer didn't have that product already?' They said, 'I take a chance and apologise if they do'." Not exactly a good way to engender confidence in a skittish consumer.

Black wonders whether the collapse of the Icelandic banks will make people more reluctant to switch to another provider just to get a cheaper price.

"Perhaps they will think a little more than just commodity and price. It'll be, 'Nice price but I don't know the company'. Brands will start to mean service and trust, not just low price. In a recession, people will be looking for a low price but perhaps they'll take a slightly wider view than in the past. For brokers, relationships and trust will be more important than ever, and people may look to regional brokers, who they can really trust."

The flipside of this will be training staff to give the right answers when clients call. "Customers will ask questions like, 'Is your company safe?' You've got to give the right answer. People in call centres have got to be ready with an answer, to give reassurance."

As customers of IT vendors, insurers themselves should be asking more penetrating questions, warns Adam Harper, business development manager of Eurobase International, which sells banking and insurance software.

"Some of the smaller companies will be bought by larger vendors not because they want the product, but because they want the client list," he says. "As soon as they get hold of the company, they discontinue that product line. If you spend X million on an IT project and then the vendor collapses 18 months later, you haven't got the product or the performance out of it."

Harper recommends asking a vendor for accounts going back several years, information on contingency planning and their forward strategy for the company. If there isn't enough cash on their balance sheet, be wary – good advice whatever the economic climate.

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> Phil Watson, Target Harlosh

Despite the slump, if you're looking for a silver lining to the new age of austerity, it is perhaps that the insurance industry may finally develop an IT infrastructure fit for the 21st century. **IT**