Transforming the Insurance Enterprise through Adaptive Systems

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INSURANCE
TRANSFORMATION: BUSINESS AS USUAL IN THE NEW ECONOMY

The insurance industry, like so many other business sectors, has undergone a historic transformation within the last 10 to 15 years. Even before the economic meltdown of 2008, the insurance industry was already experiencing tectonic change—in everything from market dynamics and regulations, to business processes, to the technologies that insurers use to run their organizations, manage distribution channels and satisfy customer demand.

What was previously a very stable, static industry where insurers experienced incremental change, yet still felt a sense of control, has become an extremely volatile environment where things are shifting faster than ever before. Yet as the velocity of change has increased, the line of sight has decreased dramatically, inhibiting the ability of insurers to see five, or even two years out. This impacts insurers’ ability to effectively respond to dramatic changes in their business and plan for the future.

In the new economic reality, insurers need to assume that change is constant and accept the ambiguity that now exists in the planning process. Change can be leveraged as a competency rather than a limiting factor, and can lead to new opportunities that will help insurers transform their business. The key to achieving this is through adaptive technologies and systems that provide the flexibility and agility to align a company’s IT systems with changing market dynamics. Adaptive systems should be flexible and open—even transparent—enough to enable business processes to flow like water.

What can insurers do to prepare for this transformation in the new economy?

Finding Opportunity in Risk

The technologies and tools built for the insurance industry 20 to 30 years ago were massive systems. They required a lot of planning, took a long time to implement and were truly built to last—in a steady environment where significant change was not expected. In keeping with the water metaphor, they were in some ways like big dams, designed to harness a tremendous amount of potential power
and resources. Huge, multi-year undertakings, dams are expensive to build and require significant planning and resources. And once they are built, they are difficult to move. Similarly, legacy insurance systems are immense, immovable systems that are difficult to alter and maneuver. These systems that performed as designed and worked so well 10 or 20 years ago, are now unable to meet the demands of an industry that must adjust to sudden, unexpected changes that define the new insurance reality.

Insurers are being hampered by the legacy systems, inflexible processes, and even resources within their own enterprise, as well as other third-party challenges and constraints such as regulations, distribution channels and market conditions. What were previously enablers in the insurance enterprise are now constraints that inhibit growth.

The challenge for most companies is to identify what those constraints are and remove or reduce those they have some control over, while optimizing the ones they don’t.

The Theory of Constraints in Insurance

The theory of constraints is a well-studied model, popularized in Eli Goldratt’s book entitled “The Goal.” Goldratt’s Theory of Constraints seeks to simplify process optimization. Though he bases his model on the manufacturing industry, his hypothesis applies equally well to the insurance industry. The goal is to create a simple, structured method to look at the business and identify where the constraints really are. Knowing what these constraints are, insurance companies can then:

- Simplify process improvement
- Structure process for constraint management
- Eliminate constraints when possible
- Optimize constraints when necessary
- Continually iterate and optimize processes as needed

It’s also important to identify the reasonable constraints in the business. Business constraints such as market opportunity, channels, geography, and regulations, are factors that an enterprise cannot control, but they can certainly optimize. Technology, processes, and people should not be the constraints that drive (or hinder) the business, for these are areas that can be controlled. By removing or reducing these constraints and optimizing the reasonable business constraints, insurers can more easily and quickly maneuver the changes and roadblocks ahead, enabling them to enter new markets or exit old ones, accelerate speed to market, issue policies more quickly, or reduce costs.

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Freedom through Adaptive Systems

The ability to reduce or remove constraints requires flexibility and adaptive systems that enable companies to react to changing conditions and business requirements, and help them achieve business and IT alignment. Process improvement can occur on a large-scale basis, but it can also occur on an incremental basis. A well-designed adaptive system should enable an organization to make a process change or product change without requiring an intensive, six-month project. Adaptive systems should combine:

- Rules-based applications
- Adaptive data models
- Configurable dashboards
- Globalization
- Integration

These adaptive systems provide companies with the freedom to quickly respond and adjust to changes in product, customers, geography, regulations, and information.

What is an Adaptive System?

Simply put, an adaptive system is one that provides the flexibility needed to handle any process the business requires. The Oracle Insurance Adaptive System provides three key pillars: process flexibility, content extensibility, and information access, all of which are built on a reliable foundation and open architecture.

For an application to be truly adaptive, process flexibility is paramount. A significant challenge for many organizations occurs when they look at their business processes and decide they want IT to implement new processes. More often than not, the legacy IT system cannot support these new processes, which creates a problem. The question is whether your business process needs to
change when you implement a system or whether your system can adapt to best practices that you’ve established to run your business.

Extensible content is also critical to an adaptive system. When business requirements change so rapidly and unexpectedly, a company’s data model has to be flexible enough to respond quickly. Perhaps a new regulation went into effect, for example, that requires the business to capture extra attributes in a particular application. Can the organization add data elements on-the-fly, or does it require a four-month IT engagement? Content extensibility enables the insurance enterprise to make these kinds of changes to the system in a matter of days, not months.

Information access is the third pillar of the Oracle Insurance Adaptive System. A company may have the most flexible, adaptive system in the world, but it doesn’t do any good without reliable access to complete, accurate information.

In addition, adaptive systems must be built on a solid, reliable foundation with an open architecture to enable integration and interoperability with other systems. These elements are also important because they drive down total cost of ownership of the system.

TRANSFORMING BUSINESS THROUGH ADAPTIVE SYSTEMS

Many of the insurance industry’s leaders are responding to the uncertainty of the market and transforming their businesses through the Oracle Insurance Adaptive System. From insurance processes such as rating and underwriting to new product introduction to claims processing and document automation, the System provides best-in-class applications that enable insurers to achieve tangible business benefits by reducing or removing constraints, allowing processes to flow more swiftly.

Rating and Underwriting

Penn National, a regional property and casualty carrier, needed a single rating engine to improve pricing accuracy. The company was previously using multiple rating engines in their distribution channels and policy administration system. Because the rating engines were not always synchronized, it led to inaccurate pricing from the time a quote was given in one system to when the final policy was issued. The multiple rating systems also created inefficiencies in which new business quotes were rated twice. This also contributed to inaccurate data.

Penn National implemented Oracle Insurance Insbridge Rating and Underwriting, consolidating and externalizing all rating logic into a single rating engine. As a result, the company has improved pricing accuracy and increased the efficiency of the rating process through automation of the rating process and underwriting workflow.

In addition, Penn National is able to leverage a combined rules-based rating engine and predictive analytics engine to drive straight-through processing. The technology provides the company with agility and insight that enables it to rate
risk based on multiple factors and accept certain risk at the right price. This has allowed the company to accept business that it may have previously turned away, opening up growth opportunities and leading to a transformational impact on Penn National’s business.

New Product Introduction

Securian Financial Group, a 26-billion dollar financial services company, provides another clear example of how an adaptive system can transform a business. Securian was challenged with creating universal and term life products faster and more efficiently. With its monolithic, legacy policy administration system, the company found that technology constraints were driving the product development cycle. The system was inflexible such that IT had to change source code in order to introduce a new process or modify an existing one.

Securian implemented Oracle Insurance Policy Administration, a rules-based insurance solution that provides process flexibility, content extensibility, and information access. Once the company implemented an adaptive system that removed technology as a constraint, Securian found that it had an opportunity to develop faster and more efficient business processes and project management techniques around bringing new products to market.

Using business rules that could be replicated and reused, Securian was able to dramatically shorten product development cycles. As a result, the company accelerated speed to market for new and refreshed products—moving to a quarterly product release cycle. The company has moved from an average of one new product release per year, to an average of six per year, with more than 20 product upgrades or refreshes since implementation in 2006. With an adaptive system, Securian has more control and flexibility to offer market-standard products that meet customer demands and foster innovation.

![Figure 2: Theory of constraints applied to New Product Development. Use of Adaptive Systems can remove constraints around systems, processes and documents, improving speed to market.](image-url)
Claims Processing

In the area of claims processing, adaptive systems can provide insurers with the flexibility and agility to remove technology as a key constraint and enable them to respond quickly to the most unexpected change. Motorists Insurance Group, a P&C carrier based in Ohio, was inundated with thousands of claims in the aftermath of Hurricane Ike in September 2008. Affecting more than 75 percent of the company’s policy base, Motorists received 12 thousands claims in the first two weeks following the disaster, four times the number of claims it normally receives in a two-week period.

Although roads were closed, and power and telephone lines were down throughout the state, the company needed to quickly and efficiently take first notice of loss and process a huge volume of claims. With its flexible, Web-based claims solution from Oracle Insurance, Motorists was able to pull in staff from other areas of the organization that knew nothing about claims and quickly train them to use the system.

The company processed, paid and closed the majority of claims within 30 days, resulting in improved customer loyalty and higher customer satisfaction ratings.

Document Automation

Another Ohio-based insurer, specialty insurer American Modern, implemented an adaptive system, enabling the company to remove technology constraints and reduce regulatory constraints in the area of document automation.

American Modern was replacing its aging policy administration system and wanted to upgrade its document automation process to optimize dynamic document publishing. The company’s previous system was inflexible and couldn’t support the functionality needed, such as real-time, on-demand documents and interactive forms. American Modern was also hindered by regulatory constraints that mandated near-‘pixel-perfect’ compliance of all forms that were being converted to new system.

With Oracle Documaker, the company successfully converted 95 percent of its forms to meet regulatory requirements. The solution also gives the company the flexibility to support a variety of document automation processes, including batch, interactive, and on-demand publishing. Not only is it easier for American Modern to prepare and produce customer communications, but it has enabled agents in its large distribution channel to quickly and easily produce dynamic documents on-demand.
CONCLUSION

The question for today’s insurance carriers and providers is this: how adaptable are your IT systems and what impact can adaptive systems have on your business? Having adaptive systems can help you to identify and remove constraints that impede your ability to prepare for and respond to an ever-changing market. By using adaptive systems that provide a solid foundation along with process flexibility, content extensibility, and information access, you can open the dam that is holding back the potential of your business, and seize new opportunities.

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ABOUT ORACLE INSURANCE

Oracle’s vision for the insurance industry is simple: offer a complete, modern and innovative set of components and solutions—from technology and business infrastructure to core insurance processing—that enables our customers to transform their insurance enterprise.

For more information about Oracle Insurance solutions, please contact us today at insurance_ww@oracle.com or 1.800.735.6620. To learn more about Oracle Insurance, please visit oracle.com/insurance.