

The state of smarter insurance

Smarter Industries Symposium, Barcelona, November 2010



The possibility of smarter industries

Two years ago, IBM first introduced the concept of a Smarter Planet, a world in which collaboration, systems thinking and data analytics improve the efficiency and effectiveness of the many systems that facilitate life on earth. It was a bold idea, but one that resonated within the business and government communities because it is rooted in a deep understanding of what's possible with today's technologies and capabilities. For this reason, our clients and business partners immediately embraced and echoed the concept.

Two years later, IBM has collaborated with more than 600 different organizations worldwide that are each doing their part in making this vision a reality. In November 2010, we brought many of these world leaders in government and

business to Barcelona to share their stories of a Smarter Planet. We called the event Smarter Industries Symposium because while the notion of a Smarter Planet may be global in scope, the work of building it happens industry by industry, company by company, government by government, and process by process.

Representatives from ten different industries attended the event, including banking, communications, energy and utilities, healthcare, government, insurance, oil and gas, retail, transportation and electronics. And though each of these industries faces unique circumstances in today's economic environment, the most advanced organizations in each field share a common outlook. They are the organizations that have stopped seeing change as a threat and started seeing it as an opportunity. They have changed the conversation from one about problems to one about possibilities.



IBM Smarter Industries Symposium

Smarter Industries. Smarter Business.

“We are climbing out of a global downturn in an environment of accelerating complexity and uncertainty, with an explosion of data all around us,” said Frank Kern, Senior Vice President and Managing Partner at IBM Global Business Services. “Yet the question on the mind of global business leaders is shifting from ‘What’s my biggest problem?’ to ‘What’s my greatest opportunity? What are my prospects? What’s available to my enterprise now that wasn’t before?’”

Analytics, ROI and the customer

During the course of the Symposium, attendees saw many examples of how organizations are answering those questions with action. In particular, they saw the power of data and analytics in making smarter industries a reality. “Analytics: The New Path to Value,” a study jointly conducted by IBM and the *MIT Sloan Management Review*, found organizations that utilize analytics outperform those that are just beginning to adopt analytics by a factor of three.¹ They use them to understand historical trends, to model current conditions and to predict the return on investment of different courses of action.

And though the approaches to analytics vary, every organization shared a remarkably consistent design point: the customer. From Fundacio TicSalut, an institution of the regional healthcare administrator in Spain that has built a shared electronic medical records system to improve health services for its citizens, to Best Buy, the electronics retailer that is listening to its customers across multiple channels and engaging them over social networks, smarter industries are being built around serving the needs of the customer.

“Our customers are asking us to know them, empower them, offer them and support them,” said John Thompson, Senior Vice President and General Manager at BestBuy.com. “We’re inclined to listen to them.”

A path to possibilities

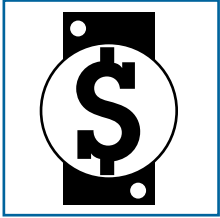
Having the design point of the customer is important because without it, all the innovation in the world has no purpose. John Kao, Chairman of the World Economic Forum’s Global Advisory Council on Innovation, explained it to symposium attendees like this: “Creativity and innovation are not the same thing. Creativity is the ability to generate new ideas. But innovation requires a goal to move forward.”

Kao advocates having a plan, or a system, when pursuing any innovation. And smarter industries are no different – which is why IBM has produced more than 30 industry-specific progression paths that identify key transformation milestones, outline the return and benefits of each step, and simplify the journey to getting smarter. The progression paths address specific aspects of various industries, from building a collaborative care model in healthcare to meeting regulatory requirements for municipal water systems.

Not surprisingly, some consistent patterns emerge at each stage of transformation, which Ginni Rometty, Senior Vice President and Group Executive for Sales, Marketing and Strategy at IBM, noted to attendees of the symposium:

- 1. Instrument to manage** – The collection of data to measure, monitor and understand a system
- 2. Integrate to innovate** – The analysis of that data to see patterns and identify opportunity
- 3. Optimize to transform** – The action of reaching system-specific goals and redefining what’s possible.

Throughout this report, you will read about what was shared at the Smarter Industries Symposium and the stories of how many organizations in your industry are applying this progression path. It’s a path that is helping improve the efficiency and operations of hundreds of IBM clients and business partners around the world. It is a path to possibility. And it’s a path to a Smarter Planet, one industry at a time.



The state of smarter insurance: Regulation, risk and the customer

What does “smarter” mean for an industry that is heavily regulated, risk averse and, by its own admission, not

very innovative? “Insurance has always been so highly regulated,” one Smarter Industries Symposium attendee observed. “The need – or even the possibility – to think outside the box was never really there.”

But the complexity of today’s globalized world and the urgency created by the recent financial crisis have made this lack of imagination very dangerous. “We are at a critical point, where the insurance industry needs to win the trust of the customer to build real, lasting relationships,” said Lorilee Medders, Associate Director of the Florida Catastrophic Storm Risk Management Center and Professor for Insurance at Florida State University. “The industry has always been in the business of selling a promise. Now it must focus more on building customer trust, not only in the promise but in the relationship. Only then can the industry successfully collaborate with its customers rather than simply sell to them.”

Regaining the trust of customers. It was a concept that was repeated many times by insurers and other experts during the symposium. In fact, a recent survey shows that only 39 percent of consumers actually trust the industry.² So given these realities – the regulation, risk and erosion of customer trust – how do insurers get smarter?

The answer is by doing what they do, only better, said symposium attendees. They do so by managing within the confines of the industry and serving the customer. “A smart insurance company sells products that are profitable to both insurers and their customers,” said one participant. “Such an insurer analyzes risk better and serves the customer better,” added Nogah Rachmani, Chairman of the Board of Directors at Ayalon Insurance from Tel Aviv.

Risk, analysis and transparency

For insurance companies, serving the customer better begins with perfecting what they do best: analyzing risk. Risk analysis is the foundation of the insurance business, of course. And combining advanced risk analysis with increased transparency helps the path to a smarter industry become clearer. In fact, Professor Medders suggests that by being explicit about what information is gathered and how it is used – allowing customers to see inside the “black box” – insurance companies will make customers feel more secure about pricing, marketing and claims.

Helping customers understand insurance products is crucial to building trust. And so is offering them products and services that fit their needs, in a manner that suits them. “The insurance industry needs predictive and applied analytics,” said Cameron Hurst, Vice President of Assurant Solutions, a specialty insurance company headquartered in Atlanta, Georgia. Assurant Solutions is using the Realtime Analytics Matching Platform (RAMP) that it developed in partnership with IBM to gather information about customer behavior. RAMP uses insights gained from this data in the Contact Center to match a customer to a customer service representative (CSR) who has the greatest likelihood of high rapport/affinity with that caller.

“The system works something like a matchmaking service,” Cameron explained. RAMP identifies which CSRs are most likely to get along with certain customer types. It learns and improves its matching capability over time, which resulted in a 187 percent increase in saved fees when applied at Assurant Solutions. “RAMP uses advanced statistical modeling that’s based on a large body of historical data generated from our millions of past interactions with our customers,” Cameron said. “We do not know exactly why our matching works, but we don’t have to. RAMP knows. What was seemingly irrelevant information to us, when combined with other factors, suddenly had an impact. RAMP finds that correlation for us.”

Regulation

Risk analysis is not the only way to better serve the customer. In the symposium session on Solvency II, the new regulatory requirements for insurers in the European Union, participants seemed to understand the hidden benefits of regulation. “We complain a lot about regulation,” one participant said. “But sometimes the changes in regulation help make us a better business.”

Theo de Ruijter, Director of Value Management at Dutch insurer Eureko, offered an example of how this works. “We want to be the most trusted insurer in our market,” said de Ruijter. “Solvency II was a chance to clean up. We jumpstarted the process by using the IBM Insurance Information Warehouse as a means to get all parts of the business using the same definitions. Then we looked at all our processes and started harmonizing and streamlining them across the lines of business.”

Solvency II requires insurers to use an accepted risk model for all areas of risk, not only on the underwriting but also the operational side. The directive provides standard models, but insurers can develop their own. “The model insurers use is important,” de Ruijter said. “We don’t do the effort just to be compliant; the model has to be useful on its own and help us in the way we do business.”

The example begs the question: If Solvency II is so beneficial, why don’t insurers in other geographies follow the European lead and implement a risk management system on their own? “Insurers are overly afraid of regulation,” said Christian Bieck, Insurance Leader for the IBM Institute for Business Value. “In the past, changes in regulation have often caused huge costs because insurers simply did not have the flexibility to make changes quickly. But ultimately, there is nothing a regulator will ask of an insurer that the insurer should not know anyway for its own business. Solvency II is basically a method for insurers to understand their risk better – the risk in their business and the risk in their portfolio.”

Innovation

Insurance customers are inherently suspicious of innovation. One focus group participant in a recent IBM Institute for Business Value study had this to say: “An innovative insurer is one that finds new ways to take consumers’ money.”³

But there are ways to innovate while building customer trust. For example, AXA recently presented a “SmartClaim” application for the Apple iPhone, one of many such applications insurers are starting to explore. “This innovative service is becoming well accepted. For us, innovation is an efficient tool to accelerate business growth, differentiate the company and help us reach our customers,” said Fabrice Lock, Director of Marketing and Innovation at AXATech, the IT arm of AXA.

“Being innovative is a matter of speed, simplicity and agility. To do it successfully, you have to make sure that you align with business needs. And you have to do three more things: measure, measure and measure. Only by collecting data about these things can you improve them.”

Ultimately, participants at the symposium agreed that the foundation of a smarter insurance industry is the customer. And that regaining trust will consist of serving those customers better – with more transparency and a greater understanding of their needs.

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