



## **Why insurers are getting smart about business intelligence**

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## Abstract

### Capitalizing on information

A little knowledge is a dangerous thing, as the saying goes. However, gaining greater knowledge through the effective use of information is providing true differentiation for today's leading insurance companies.

## Overview

That's why more and more insurers are investing in business intelligence (BI) to gain more comprehensive knowledge about their customers, products and services, employees and overall company performance. These BI initiatives are enabling these firms to become more innovative, cost-effective, agile and responsive to the very dynamic financial services market within which they operate.

This same dynamic marketplace, in fact, is posing a risk to insurance companies that do not capitalize on their information assets as a competitive weapon. Mergers and acquisitions are narrowing the industry base to create large insurers and integrated financial services firms, even as smaller, nontraditional and Internet-based companies jockey for position. At the same time, the complexity of doing business is on the rise as new products are introduced to appeal to specific and more demanding customers.

## Business problems

Just as significant, the nature of the business itself is changing, especially in the areas of risk management in the wake of geo-political disturbances, unstable financial markets, and catastrophic natural disasters such as Hurricane Katrina and the Pacific tsunami. In response, insurers have realized that one of their most valued and differentiated assets is information – which, when applied to address an important business decision, becomes business intelligence.

## Defining moments

There are many definitions of business intelligence, but the essence of BI is relevant, accurate, timely information – from both inside and outside the company – that can be used in an integrated fashion to make “on demand” business decisions, throughout the enterprise, in the face of volatile markets and changing customer demand. It is business insight that is integrated and effectively delivered across the enterprise. It arrives:

- In time – to create or add business value.
- In context – to minimize the time required to make a decision and take action as conditions and assumptions change.

Many leading insurers have incorporated BI as an integral part of their business strategies and are looking to move beyond historical reporting to a higher level of predictability and business insight. Their goal is to embed analytics into critical processes to manage the business better and make this information much more readily accessible throughout the company. This capability, sometimes called “operational intelligence,” establishes the foundation for using information in context to make timely decisions.

Ultimately, it’s about using information and applied analytics to anticipate change and quickly shape company strategies, processes and governance policies to adapt to these events as they occur, or in some instances, to be able to anticipate these events and take proactive action before the event occurs.

## Business drivers

### New business models

Some insurers are taking advantage of their customer and product data by combining it with relevant external data, analyzing and using it to build channel strategies aimed at high-net-worth customers. This information can also be leveraged to attract new customers with personalized product offers, as well as to up-sell and cross-sell existing customers. Experience has shown providing multiple services and products to a single consumer or household significantly improve customer loyalty and retention rates. In simple terms, the more financial products a customer purchases from a single company, the less likely the customer will be lost to attrition.

Underwriting also has benefited greatly from the strategic use of BI. In this area, BI is enabling continuous monitoring of policies and claims to spot new trends and adjust underwriting rules or propose new coverages resulting in increased customer satisfaction and lower cost ratios. Other “on demand” underwriting and claims processing capabilities include:

- Fraud detection.
- Predictive modeling
- Greater understanding of specific risk factors and their impact on pricing.
- Updated underwriting rules.
- Managed underwriting knowledge (rules and performance).
- Automated claims processing and settlement.
- Improved risk management.
- Other advanced decision-support capabilities.

In the area of risk management, BI can be used as a means of anticipating, factoring and managing operational, market and credit risk, and as a tool to help identify more specific and refined risk profiles that can be used for planning, monitoring and responding to the various types of risk.

Business processes, reinforced through embedded business intelligence, can also be put in place to build tailored policies and financial plans, on demand, for individual customers or households. For instance, today, data from monitoring devices installed in cars can be used to develop personalized policies and coverages based on individual driving habits. By collecting and analyzing information about who's driving, when, where and how fast, the insurer can set specific rates based on real-time, personalized information.

BI solutions are also being used to improve customer service necessary to deliver "on-demand" products and services via customer-preferred channels. In many cases, current policy administration systems depend on overnight and intraday batch updates to synchronize policy and customer information in multiple databases. "On-demand" BI enables real-time updates so the current view of all relevant customer activity and relationships is instantly available to authorized employees, partners and the customer. This allows agents and customer service representatives, as well as self-service channels, to have the information necessary to quickly respond to customer inquiries instantly and accurately.

Other information-based "on-demand" policy administration capabilities include:

- Just-in-time policy building.
- Instant policy renewals and additions.
- Enhanced flexibility for designing personalized policies.
- Improved policy administration processes to reduce costs and improve customer service.

## The SOA nexus

Another strategic imperative for global insurance executives is innovation. This innovation is manifesting itself through more integrated, streamlined business processes. BI must play a very significant role in helping support this business process transformation through operational business intelligence. Operational BI offers insurers an opportunity to define their key operational performance metrics beginning with the corporate strategy and then aligning these metrics through the various lines of business, functions, departments and specific business processes to better plan, manage and improve overall corporate performance.

Simply put, operational BI provides the information required to support the convergence of these transformed business processes with service-oriented architecture (SOA). Making use of SOA-based tools and technologies provides the information foundation underlying these business processes, thereby achieving two important objectives:

First, operational intelligence represents the next generation of business performance management (BPM) as organizations align their key performance indicators (KPIs) throughout the enterprise. Once defined, these KPIs are cascaded down through the various lines of business, functions, departments, processes, etc., so there is alignment, transparency, and accountability from the executive suite through the individual business processes.

The second objective for operational intelligence is to ensure that the individuals who are associated with these business processes (e.g., actuaries, agents, underwriters, adjusters, etc.) are armed with the information that they need to make better and more timely decisions. This requires that the information be of high quality, and presented in the right context, to improve customer service, employee satisfaction and productivity, procurement and costs, and ultimately corporate profitability and performance. At the same time, BI offers insurers an opportunity to improve external and statutory reporting capabilities as well.

Case in point: after Hurricane Katrina devastated New Orleans and many Gulf Coast Communities in 2005, debt rating agencies and Wall Street analysts took a serious interest in the impact of Katrina-related claims on insurance companies. Some insurers took a long time to find and compile this information and, as a result, suffered debt downgrades and lost significant market value. Those firms with more advanced BI solutions already in place were able to respond to the regulators and analysts quickly with up-to-date information that accurately projected their exposure. More importantly, these insurers were much better positioned to quickly locate and communicate with their policyholders in the affected areas to provide timely and critical support and financial assistance.

Information, when used to make better business decisions, is powerful. Insurers will continue to find themselves in the throes of unsettling trends that call for more agility, reduced costs, enhanced capabilities and the flexibility to adapt to a constantly changing business model. To compete and win in this dynamic environment, firms will need the agility to adjust their strategies and business processes rapidly. They will need to move boldly to create more innovative products and services. At the same time, they must leverage their information assets to align individual activity with organizational goals while also providing the business insight and the tools to enable improved decision-making and productivity at all levels of the business. Moreover, these BI solutions must offer a view of the entire globally integrated enterprise to optimize overall business performance – an essential requirement to compete and prosper in today’s “on demand” insurance environment.

A little knowledge may be a dangerous thing, but a lot of it – applied in an integrated and strategic fashion across an entire insurance enterprise – can be even more dangerous... to your competition.

## The solution

### How IBM Cognos BI solutions can help

Thousands of insurance companies worldwide rely on IBM Cognos® 8 Business Intelligence software, including six of the top 10 insurance companies in the world and seven of the top 10 insurance companies in the U.S. In addition, IBM Cognos BI solutions have been recognized by Insurance Networking News and IDC Financial Insights with First Place awards in “Keeping Insurers Informed Through Analytics,” in both the Property and Casualty and the Life and Health Insurance categories. These awards are based on votes from insurance companies worldwide.

**Solutions**—Built upon a wealth of expertise in property and casualty, life and other insurance sectors, IBM Cognos solutions address a variety of business initiatives, including improving profitability in underwriting and claims, sales and relationship management, marketing, operations and finance.

**Services**—With IBM Cognos Consulting Services, each customer engagement is a partnership. To each we bring the same consistent approach: a shared vision of success, clear accountability, strong leadership, and constructive dialog. At the same time, we enhance your productivity, give your users greater freedoms, and accelerate the process of knowledge transfer.

**Support**—IBM Cognos integrated performance management capabilities are supported by award-winning Global Customer Services. Customers and support professionals alike consistently put us top of the list for best software support and innovative services.

**Thought leadership**—It’s not enough to simply have the right solutions and services; insurers need tools to help them make performance management thrive in their organization. The Performance Manager for Insurance, an IBM business book, can help you turn the growing information intensity of your job from a challenge to a competitive advantage. In addition, the *IBM Cognos Insurance Product Profitability Performance Blueprint* is a free downloadable tool that enables you to create profit and loss statements and balance sheets at the business segment level, by product line, product, and brand.



## Conclusion

### The right software

The integrated capabilities of performance management – scorecarding, reporting, analysis, budgeting, and planning – supply insurance decision makers with valuable information from across the organization.

- IBM Cognos 8 BI communicates your strategy and objectives through metrics-based scorecards and dashboards. They provide an aggregate view of information from many different sources, so people can understand and take ownership of their performance – visibility into operations and strategy, understanding the part they play in making the business succeed and the metrics to measure their success. Reporting and analysis consolidate and leverage your critical data and turn it into meaningful information and reports that everyone can use. You can quickly spot trends and drill down to discover underlying causes and issues. The flexible, user-friendly reporting means everyone has the right information delivered in the right way – across all departments, locations, functions, and roles.
- IBM Cognos 8 Planning helps you connect strategy to plans, targets, and operational objectives. It allows you to set strategic initiatives and turn them into discrete plans and budgets for the entire enterprise. Plans can be built to maximize operational effectiveness and can be easily realigned as conditions change.
- IBM Cognos 8 Controller offers pre-defined reporting functionality that simplifies your consolidation, compliance reporting, and management reporting processes. It delivers the transparency needed for sustained compliance with IFRS and Sarbanes-Oxley. You can adapt to business and regulatory changes in real time, and drive better performance management.

### About the author

Michael Schroeck is the global business intelligence leader with IBM Global Business Services. Schroeck has helped build the BI practice into the world's largest, with more than 4,000 consultants providing solutions to more than 500 clients globally.



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## About IBM Cognos BI and Performance Management

IBM Cognos business intelligence (BI) and performance management solutions deliver world-leading enterprise planning, consolidation and BI software, support and services to help companies plan, understand and manage financial and operational performance. IBM Cognos solutions bring together technology, analytical applications, best practices, and a broad network of partners to give customers an open, adaptive and complete performance solution. Over 23,000 customers in more than 135 countries around the world choose IBM Cognos solutions.

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