REFLECTIONS

Technology Themes that enable
Insurance Business Strategy

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Executive Summary

As insurance markets mature, as insurance companies compete with other financial services companies for the same clients, they will have to evolve their business strategies over time. To analyse possible insurance business strategies, we can apply Tracy and Wiersema's Value Discipline model, which has proved to be a popular model for business strategy.

For a business strategy to be successful, effective operational follow-through is a must. Insurance companies need to have an IT solution that will allow - and not hamper - enabling business strategies. This means that IT solutions should support not one, but all the three, meta-strategies or Value Disciplines suggested by Tracy and Wiersema.

Support for the Value Disciplines requires some key enabling technology themes. The four themes identified are:

- Accessibility & Availability: anywhere, anytime, through any means
- Integrability & Interoperability: work with other solutions seamlessly
- Configurability & Customisability: change comprehensively and easily
- Stability and Scalability: a sound basis necessary for managing volumes

Each of these themes supports each of the business strategies of the Value Discipline model in a different way. Many different examples in the insurance industry are used to illustrate these.

Evaluation of your current (or future) solution against these themes can be used to understand the limitations of your technology choices, and therefore on your operational business strategies.

About the Author

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Business Strategy

Choosing the direction

In many countries, fundamental changes are happening in the insurance business. Emerging powerhouses like India and China are driving growth in many sectors of the world economy, thanks to their huge populations. This is especially true in insurance, where liberalization in these markets has opened new doors, and has led to a growing flood of insurance companies. In mature markets, regulatory changes for transparency, customer pressures for better products and services, new channels and increasing competition from other financial services companies are driving change.

Due to these changes, many insurance companies need to rethink and sometimes reinvent themselves. In emerging powerhouses, this need is driven by unparalleled growth in the insurance business. When these markets opened, the pressure was to set-up operations as soon as possible; it was seen as a new Gold Rush. Having taken the plunge, with the experience of different business strategies in the new markets and with increasing competition, companies are being forced to analyse and evaluate their business strategies.

There are many existing models for analysis for business strategy. One of the most popular models is Tracy and Wiersema's Value Discipline model. This model may be applied by insurance businesses.
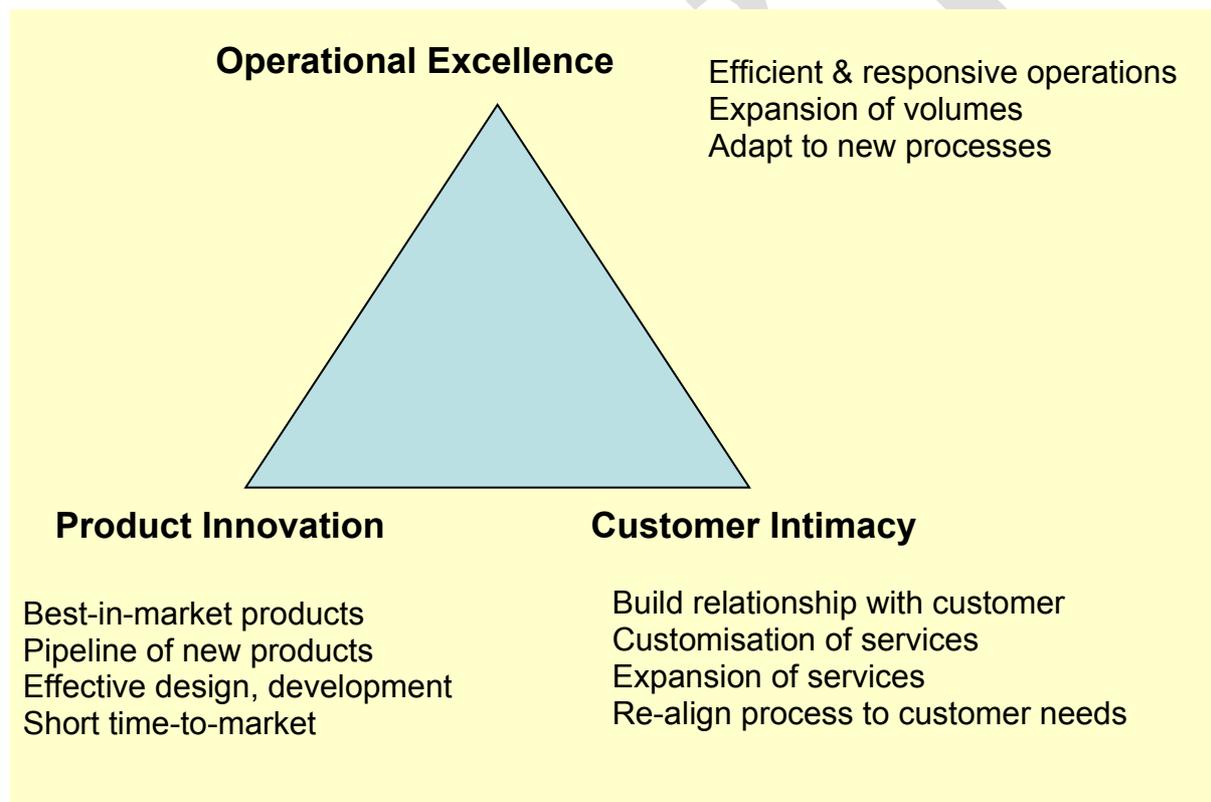
The Value Disciplines

Michael Treacy and Fred Wiersema famous book The Discipline of Market Leaders explains the distinct meta-strategies that can be followed by companies. These business strategies are based on fundamental values of the companies – quality, efficiency, customer satisfaction, innovation, and leadership – words that are present in the vision and mission statement of many companies.

These three meta-strategies are Operational Excellence, Customer Intimacy and Product Leadership. According to the Value Discipline model, a company should choose one of these value disciplines; based on that choice, it must evaluate and execute its operations consistently.

Operational excellence is about efficiency and at streamlining operations. Typically, this means providing the same product or service at a price low than competition, or at providing an unmatched level of service. Managing increasingly high volumes with a consistent, high-quality process that responds to new situations is the main challenge. Many large international companies adopt this Value Discipline.

Product leadership is about innovation and speed of launch. The aim is to provide the customer a product or service that is unavailable from any other company. Companies that choose this need to be very strong on product development, design, branding, and shortening the time-to-market. Often, in an evolving market, companies adopt this Value Discipline.

Customer intimacy is about being closer to the customer. The aim is to building relationships with individual customers, and earning the customer's trust. Typically, services and products will be customised to meet the individual's requirements. Also, companies will expand their services and make major re-alignments to meet the customer's complete needs. Many financial services companies are adopting this Value Discipline.

Operational Excellence

Efficient & responsive operations
Expansion of volumes
Adapt to new processes

Product Innovation

Best-in-market products
Pipeline of new products
Effective design, development
Short time-to-market

Customer Intimacy

Build relationship with customer
Customisation of services
Expansion of services
Re-align process to customer needs

According to Treacy and Wiersema, a company must choose to excel in one of these three value disciplines; in that, it should aim to be the best in its market (which – increasingly – is the global market). And it must execute its operations consistently in such a manner that this value discipline is in focus.

It is important to note that Tracy and Wiersema do not suggest that the company should ignore the other disciplines. For example, a company that focuses on product leadership needs to know its customers well and have strong operations beyond launching the product. But it may not be the best in its class in these areas.

Choosing the Value Disciplines in the Insurance Business

It seems reasonable to assume that as insurance companies rethink business strategy, each company will focus on one of these value disciplines and be strong on the other two. However, this assumption may not hold for all insurance companies.

One may think of an insurance company as a set of businesses. For instance, most life insurance companies have a group life business and an individual life business; usually, most customer-focussed operations are separate, and require different teams with different skills. Sales channels are different, and in a sense, they are almost separate companies with a common senior management. Among non-life companies, the group medical business and the individual businesses are often similarly separated. In some cases, even the businesses for non-life classes may be separate, depending on corporate and retail risks. In countries where the regulators allow a composite insurance licence, the variety of businesses is enhanced.

It is quite possible to apply the Value Discipline model separately to each of the businesses. Thus, each business may choose to position itself differently, and may choose a different Value discipline. For example, in a life insurance company, the individual life assurance business may choose Operational Excellence as its value discipline while the group life assurance business may choose to focus on Customer Intimacy. Similarly, in a non-life insurance company, the medical business - with a corporate focus - may have Customer Intimacy as its value discipline, and the motor business - with its focus being the highly price-sensitive retail market - may choose Operational Excellence.

It is also important to note that market conditions are not static. This is especially true in the newly liberalised insurance markets; these markets are evolving rapidly, catching up for lost time in areas such as products, services, and channel management. Adapting to changes to market conditions, insurance companies will evolve their business strategies, and may move from one Value Discipline focus to another.

For instance, in the early years of liberalisation in India, some companies focussed on Customer Intimacy, and had products that were similar to the existing products. This was because product innovation would require significant investment in education of customers and agents, and new companies with a small operational base were not keen on that. Some of these companies are keen to focus on product innovation; some others – having acquired high volumes – are keen to focus on Operational Excellence.

Thus, the choice of the Value Discipline is neither singular nor static.

Aligning Technology Strategy with Business Strategy

For a business strategy to be successful, effective operational follow-through is a must. Most insurance companies depend heavily on their IT systems for operational work. So, it is obviously necessary to have an IT solution that will allow - and not hamper - enabling the business strategies.

As noted in the previous section, the choice of the Value Discipline for an insurance company is neither singular nor static. Supporting the current choices of the Value Discipline is imperative; without it, the business runs the risk of failure.

In the long-term, if the business changes its choice of Value Disciplines, IT will need to support those as well. This often means a change in the operational IT systems; how often have we heard of companies that needed a new system when there was focus on product innovation: be it unit-linked products, or a new type of medical insurance? The time frame for implementation of a new IT solution is usually large and expensive; this delays the actual implementation of the business choice of the Value Discipline.

If IT is not to be a bottleneck in choosing the business directions and the business strategies, IT systems must support all the Value Disciplines suggested by Tracy and Wiersema, and especially the current Value Discipline of the company.

Technology Pillars

Key Technology Themes

Technology support for the three Value Disciplines requires support for key enabling technology themes. What could be these? Four themes were identified as the main support mechanisms. These are:

- Accessibility & Availability: anywhere, anytime, anyhow, anyone
- Integrability & Interoperability: work with other solutions seamlessly
- Configurability & Customisability: change comprehensively and easily
- Stability and Scalability: a sound basis necessary for managing volumes

Accessibility & Availability: anywhere, anytime, anyhow, anyone

The theme of accessibility covers the need of the business to be able to access the solutions anytime, anywhere, and through any means. Anytime implies 24x7 availability with no downtime, no shutdowns for batch operations, synchronisation of systems, or for holidays. It requires the need for automated back-up systems and disaster recovery procedures. Anywhere is about locational flexibility; one could access the solutions from the Data centre, the Head Office, the Branches or from home. Anyhow covers the many technology devices that can be used to access the IT solution, including the PC on the LAN, the PC at home, or even the mobile. And anyone? The IT solution should be accessible not only to corporate users, but also to vendors and customers.

Within this theme, there is the requirement for being able to control all the limits of accessibility and availability. A security mechanism needs to be in place control the accesses to specific people or roles. There should also be an ability to control time-based

access e.g. some roles are only for the night shift, so should only have access at that time. It may also be a requirement to set location-specific controls e.g. some items should be accessible only from the data centre, to which access is restricted by physical controls.

Integrability & Interoperability: work with other solutions seamlessly

We do not even imagine anymore a giant monolithic all-encompassing IT solution; the days of those dreams are over. No solution can do everything; and the component solutions of today may not be the solution for tomorrow. In recognition of this, the technology theme of Integrability & Interoperability emerges.

The focus of this theme is how well the solution can work with other solutions. This is two-fold: technical and functional. The first part covers the interoperability with technical components such as databases, operating systems, hardware, network solutions, browsers, SANs. The second part covers the aspect of different application systems working together; these include the policy administration system(s), the agency management solution, the claims management solution, the workflow solution, the HR solution, the corporate financial solution, the illustrations and more. Historically, this has often been achieved using batch interfaces; in an increasingly online world, this theme envisions seamlessness in terms of usage at any point of time.

An important point to note is Integrability. Some elements of the IT solution are often invisible to end-users, and are integrated within some other solutions. For instance, a premium calculation engine may be a component that is used by the illustration and policy administration systems; a web portal may integrate an expert underwriting system and a policy servicing system. In some cases, this has been treated as a single sign-on capability; that is the tip of the iceberg. This requires both the solutions – the integrating and the integrated - to not only talk to other systems, but also to be able to hide behind the scenes of another solution or to appear in front of another solution, as required.

Configurability & Customisability: change comprehensively and easily

We accept that the IT solution does one part of the overall business, but the needs for that business change all the time. Even when we assess the solution first, we find gaps between the current system, and what we require. And as we go forward, the business requirements change, and we expect the solution to be configurable on demand, and to be customisable based on our needs.

This theme is about constant change; chameleon-like, can the system adapt to its business environment? The classical view of this theme in the insurance business has been product-based, assessing configurability based on what product variants are supported, and how fast business rules for new products can be configured. A more comprehensive view of this covers all operations: adaptability of change to business processes, screens, customer documentation, reports and analysis. Also, unlike the classical view where all the rules are

expected to be set-up in the application using screens, this theme does not make assumptions how the change is done, just that a wide range of changes can be done easily at low effort and risk.

Stability & Scalability: a sound basis necessary for managing volumes

Many IT solutions promise a lot; after deployment, transactional errors are found, and a patchwork of fixes leaves the solution increasingly unstable. Equally, growth is always a business imperative, and many IT solutions falter in handling this. This theme focuses on the stability and the scalability of the IT solution.

Does the solution that scale up gracefully as business requirements grow? This is typically viewed from the point of view of number of policies or transactions. It is equally important to assess the number of users that it can handle; over time, we may need to provide access to customers. In that scenario, the user base is no longer the few hundred or thousand corporate users; it shoots up to a million. Some other areas covered in this theme include the number of reports that can be added without slowing down the solution, and tasks added in the business process or workflow.

Thus, the four technology themes are:

- Accessibility & Availability: anywhere, anytime, anyhow, anyone
- Integrability & Interoperability: work with other solutions seamlessly
- Configurability & Customisability: change comprehensively and easily
- Stability and Scalability: a sound basis necessary for managing volumes

Pillars for the business strategy

Each of these technology themes supports each of the business strategies of the Value Discipline model in a different way.

Tracy and Wiersema's Value Disciplines

Availability & Accessibility | Integrability & Interoperability | Configurability & Customisability | Stability & Scalability
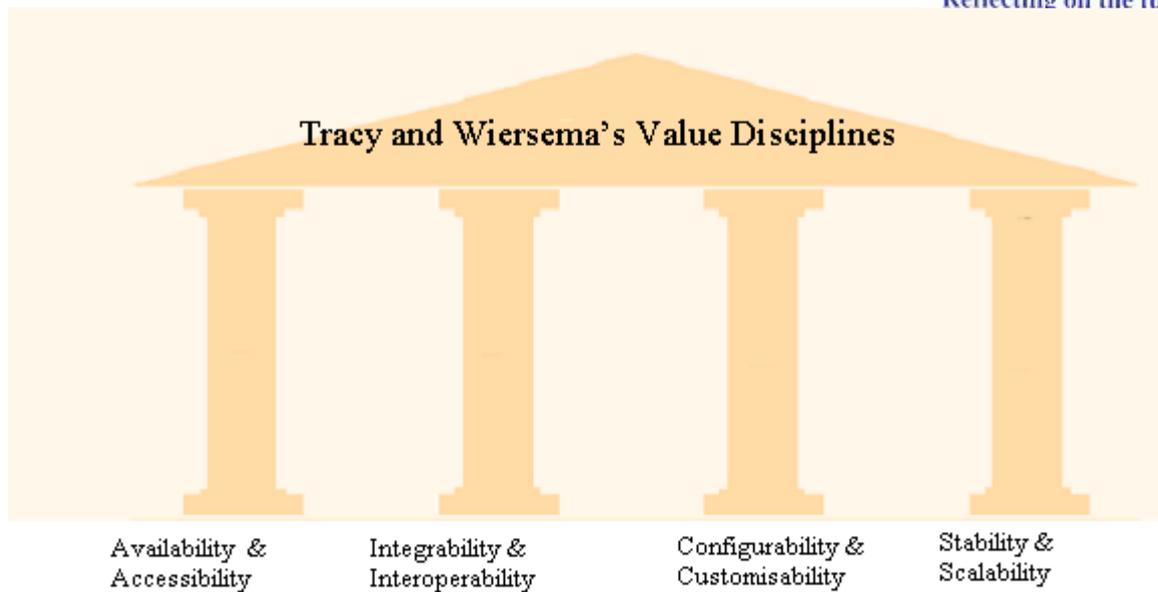
Accessibility & Availability: anywhere, anytime, anyhow, anyone

A business with its Value Discipline of Operational Excellence will need to optimise costs, and to process increasingly high volumes. Managing this will require companies to use their IT resources intensively. This will require full system availability. There will also be pressures to move work (business operations and IT operations) to appropriate locations – to new offices at more-cost-effective locations or to other companies. Apart from existing users, external staff will have to access the systems, typically from their locations. All these points indicate that a Value Discipline of Operational Excellence requires strong support on this front.

If the business chooses customer intimacy, IT systems must enable building relationships with individual customers, and earning the customer's trust. This will require customers to access their data – their policies, claims, and money – at any location and any time of their convenience. They may like to interact using their home PC, their mobile, or at Internet kiosks. Accurate online availability of data round the clock would add enormous support to customer intimacy. Most leading banks have now provided for this; as insurance compete with banks with similar products for a share of the customer's wallet.

The Value Discipline of product leadership requires providing the customer a unique product or service. There are scenarios where having such a product would be substantially helped by access and availability to external parties. For example, an insurance product sold by banks or corporate partners may he helped by the ability to connect on-line to the IT solution at the insurance company, which helps the seller decide the requirements from the customer, apart from providing illustrations and scenarios. However, in many cases where the policy operations are managed internally, there is limited relationship between innovation and accessibility.

Integrability & Interoperability: work with other solutions seamlessly

Operational Excellence requires high-efficiency in operations across the enterprise. This will require a high level of automation. No single solution can encompass all business processes, and in an organisation that aims at high operational efficiency, there will be a plethora of best-of-breed solutions. There will typically be separate solutions for illustrations, policy administration, agency management, claims management, corporate financials, workflow and CRM. For operational efficiency, it is essential to be able to make the set work together seamlessly. Equally important is the ability to interoperate with the IT solutions of the business partners.

From a technical perspective, interoperability allows the company to migrate to more appropriate technical components. Moving application servers to Windows servers, or moving web servers to Linux, may lower the operational costs significantly. The feasibility of such moves may be restricted by the interoperability of the current solutions.

Customer intimacy require IT systems that respond to customers – accurately and quickly. A set of best-of-breed solutions that work together in batch mode is a starting point; but batch-based interoperability is not adequate for customer intimacy. For service representatives to provide quick and comprehensive answers, they need at least a single sign-on with the ability to dive into transactional detail typically cutting across many systems.

For businesses that choose Product leadership, the product or service design is sometimes inhibited by the lack of interoperability. Classic examples are with business partners, who want to sell the same insurance products from their front-ends. The Integrability of illustrations, premium calculators and automated underwriting often becomes a bottleneck, requiring the partner to redevelop these components. Partnerships are often delayed by the inability of two systems of the two companies to talk to each other, even in batch mode. Even for products managed internally, new products and services often require new systems or interfaces or changes to existing components. Interoperability covers the ease with which this change can be absorbed by the other components and can then be available to the organisation.

Configurability & Customisability: change comprehensively and easily

To maintain operational excellence, insurance companies need to continually strive to improve their operations; there is an ongoing need for process improvement. Insurance businesses are in evolution mode as they respond to the lifecycles that come in as the business matures e.g. for a life insurance company, maturities, and loans. Business will demand from the IT system high configurability and customisability. This is especially true for changes to workflow, menus and screens, and customer documentation. Adapting to changing business requirements will also require new reports and analytical capabilities. Any IT solution which cannot meet these demands fast enough is likely to create pressures on the business.

A focus on customer intimacy requires responding to the customer's needs quickly, and even to anticipate her needs. Companies with this focus will be willing to re-align their business processes, services and products based on the customer's choices. There are many examples of emerging services: ambulance calling for motor accidents, providing replacement cars while the car is repaired at a garage, assisting agents and clients with income-tax returns. Increasingly, there are needs to allow customers to transact on-line with the insurance company e.g. change their address, change their fund allocation. Having the end-customer or the agent as the user of the system – instead of an employee - often redefines the screens and business process; it also creates the requirement that an end-user will be able to configure her own screen and alerts. Similar sets of changes often happen with business partnerships. All of these require strong support for configurability & customisability.

Any company that wants to maintain product leadership will need to launch new products quickly. It is critical that IT solutions do not become a bottleneck for a high speed-to-market. Insurance products have contracts with many legal clauses; the processing implications of these need to be managed. Systems need to be able to provide high support for product configurability: product rules, underwriting rules, operational processes, and policy documentation. A new product may require new fields on the screen, or may not capture some of the data elements required earlier; so, policy processing screens and database structures may also require changes. Complex logic for calculations of charges and claims may also need to be changed. The speed with which product changes can be operationally supported is critical to product launch; therefore, strong support for configurability & customisability is essential.

Stability and Scalability: a sound basis necessary for managing volumes

A company with its business focus on operational excellence will require managing high volumes efficiently. The number of customers, policies, transactions, and concurrent users will grow over time. A single transactional error, a minor bug, can potentially impact a large number of customers, causing widespread customer dissatisfaction. Recurring problems solved by fixing the cases, and ignoring the root cause, can lead to an unstable system that will struggle with handling large volumes. Equally, both on-line and batch processes need to be efficient in managing scale. Over time, the business will want more of everything: more screens, more reports, and more analytics; whether the IT solution is ready for all of these will reflect how ready the business is its strategy.

Any business that chooses customer intimacy has to provide close contacts with the customer. With that in view, the user community is no longer the few hundred users in the corporate office; it shoots up to the several thousand agents who are the primary customers of the insurance companies, and to a million end-customers. Let us also not forget that this is a financial services business; insurance deals with the moneys of people. One error with the customer's money is a loss of faith; and to a company with a focus on customer intimacy, stability is crucial.

A matrix of support

Each technology theme acts as a pillar; together, the four pillars support the three Value Disciplines. It is ideal if the IT solution supports all the technology themes equally well; however, depending on the Value Discipline, some themes may be more important. A possible model of the requirements of each Value Discipline from each technology theme could be illustrated as follows:

Value Discipline → Technology Theme ↓	Operational Excellence	Customer Intimacy	Product Leadership
Accessibility & Availability	Access through extranet 3-shift; 6 days availability	Access through Web 24*7 availability	Important only if the product depends on access/ availability
Integrability & Interoperability	Integrate with other applications in office	Integrate with customer portals	Integrate with business partners
Configurability & Customisability	Customisable workflows and screens	Configurable for Web use	Configurable for products, calculations
Stability and Scalability	Very stable Highly scalable for transactions	Very stable Highly scalable for users & transactions	Very stable Highly scalable for products

It is ideal if all the components of the IT solution support all the technology themes. In the real world, it is important to assess which components must support each theme immediately, and which components need to support each theme over time. For instance, the need for an illustrations component to be accessible and available may be very high; some areas of policy administration may not be needed immediately. Equally importantly, alternate solutions – such as off-line illustrations – are often identified; the costs of managing such alternate solutions need to be carefully assessed. These decisions need to be made keeping in view the Value Discipline of the business.

In summary, the technology themes support the operationalisation of the Value Discipline of the business. So, it is essential to assess the IT solutions from the perspective of the technology themes, with reference to the Value Discipline of the business. It is also useful to do such an assessment while evaluating potential solutions; evaluation criteria and scoring model should be based on the technology themes. Such an evaluation of your current (or future) solution against these themes can be used to understand the limitations of your technology choices, and therefore on your operational business strategies.