FINEOS Perspective

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The IT Revolution in Irish Insurance*

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It's no exaggeration to say that the commercial landscape in Ireland has been revolutionised by IT over the course of the last three decades and the insurance industry has been as much a part of this metamorphosis as any other. My career in the insurance technology world began in 1984, when I joined FBD insurance as a computer applications graduate. At the time, FBD was one of the only insurers in the country that had a software package for Policy Administration, running on a database and mini-computer hardware. We had green screen VDUs and indeed we even had some orange ones as well.

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*This article is taken from "The Insurance Institute of Ireland. 1985-2010 - Landmarks in Insurance" (May 2010)

The IT Revolution in Irish Insurance

continued

FBD's software package was called POLISY which had been developed by a company called Paxus in Australia. I guess it was FBD's good fortune that they were late into computing and therefore, they could leapfrog the older players who had invested in developing computer systems in-house much earlier. Indeed a number of other insurers in Ireland followed FBD and purchased Paxus POLISY and its sister product LIFE for Life & Pensions administration.

So just how far have we come in the last 30 years - what has been the business and technology thinking and the big milestones that the insurance industry has experienced along the way?

Firstly, it is important to recall how insurers operated back in the late 1970's and early 1980's. For the veterans among you, and there aren't many left in the industry today, it won't seem too long ago when typing pools, policy registers, data processing and punch cards, telex machines, and manual rating and renewals were part and parcel of life in an insurance company. Correspondence was by typed letter and simple policy queries could take weeks to process. The speed of response was not as important as it is today but everything was about the quality of customer service. We strayed from that 'customer service' ethos in later years but funnily enough, we are back to where we started, as most people will agree today that it is all about the quality of service, customer retention and growth. The battle for customer loyalty goes on.

Until more recently, insurance companies operated in a policy focused manner rather than understanding the total relationship with the customer. So while an insurance company might have 60-70% customer overlap in the different parts of its business, there was no single view of the customer and all internal systems and processes were based on the policy rather than the customer.

1980's - Mainframe Computing, Microfiche & the Invasion of the Green Screen VDU

Mainframe computing to manage policy administration records was introduced in Ireland as early as the 1960's, as the IT revolution began to impose changes on the way insurance companies operated.

However, until the 1980's, insurance products had been remarkably static for decades. However by the 1980's new legislation prompted life insurance companies to introduce new and more varied saving, investment and pension products. We also had quite a few new entrants into the market and career opportunities began to grow for insurance business and IT skilled people.

A major difference of this era compared to present day was the role of the in-house IT department and the independent approach that most of our older insurers took to technology. Each had their own products and processes and they believed custom developing an administration system to meet these peculiarities was essential to achieve a perceived competitive advantage.

You could argue here that they had no real option but to develop their own systems. It is also very understandable given the paper-based and manual processes that were being automated on a piece meal basis. However, the in-house developed systems proved to be the root cause of many costly maintenance headaches and inefficiencies in later years.

The demand to design, build and install new computer software put in-house IT departments under a huge strain. Many people were trained in computer programming and often this created the opportunity for clerical or actuarial staff to enter the ranks of 'the Cobol Programming Brigade'.

Indeed some insurers viewed training their people in proprietary IT skills for in-house development projects not only as a way of creating an asset that worked specifically for their own commercial concerns, but also as a way of retaining a uniquely skilled workforce. Irish Life was an example of this strategy. There was no one in the market using their chosen mainframe programming language PL1, so few opportunities existed locally outside of the company for those who they had trained in PL1. New Ireland also had a similar hold on key staff through its ICL mainframe. However, New Ireland was one of the first insurers to adopt a Policy Administration package system, BLISS.

IT hardware was extremely expensive in the 1980's. A 12" terminal could cost £2,000 and a ¼ Mega Byte of memory (64 times less powerful than a standard iPhone) cost £27,000. All the same, given the complexity and nature of the insurance business in the 1980's the business was ideal for the very large teams of IT people and even bigger IT budgets required. Insurance was ripe for computer automation and it still is today!

1990's – Imaging, Desktop PCs, Packaged Admin. Software, Y2K Timebomb & the Internet

As the industry rolled out of the 1980's and underwrote its way through the 1990's, there was always a new set of challenges to meet, driven by further competition and changes as a result of new entrants to the market, the emergence of new product types, bancassurance and some of the inevitable consolidation that also took place.

We also witnessed the end of mutualisation and state ownership for a number of institutions. Insurance companies were now part of larger PLC's and had to adapt to a new world where the focus was on delivering value, not just to customers, but also to the shareholders. The drive was to increase the volume of business and reduce operational costs

As we grew our wealth during the 1990's, competition became intense and insurers were no longer just competing against each other, but also with firms from across the financial services

sector, affinity players who felt they could add value to customers by selling them commoditised insurance products and new retail players coming into the market with highly respected brand values.

This period was also characterised by the rise of personal computing; more advanced telephony based insurance business and the adoption of Electronic Data Interchanging (EDI), all of which took great strides in the personal lines sector.

> The introduction of the paperless office where files were scanned was also becoming a reality. This brought significant gains in efficiency and security. Padraic Mills, who joined PMPA 37 years ago, told us recently that "Prior to imaging, a paper file could be in one of 18 'spots' in the company!"

Software houses, such as Computations, Capsco, Paxus and Creative developed insurance packaged policy administration solutions that could be used for various functions across a business and then configured to suit the individual demands of the specific insurer. Interestingly, all but one of these software houses originated in Australia, a market with many Irish surnames which experienced financial deregulation a few years before the UK and Irish markets.

Because these software houses were designing solutions that were then sold to many insurers, the cost of these software packages was significantly reduced and essentially meant that developing IT in-house was no longer compelling, unless for very specific measurements or competitive reasons.

In short, the decision to invest in IT became more about measured business and commercial advantage rather than pure IT concerns. Over a period of time technology became a given within insurance, in that open standards appeared. Microsoft made it possible for us to experience a hegemony of business PCs, various flavours of Unix flourished and systems interoperability became widespread.

The industry was starting to see that propriety solutions were painful and expensive, and "open" was the way to go in the future. Probably one of the biggest technology industry shocks in this era was the disappearance of DEC – Digital Equipment Corporation into a PC vendor, Compaq. This demonstrated the speed of technology change and the phenomenal growth achievements of a young company to be able to buy an industry institution like DEC. DEC took a wrong turn on the technology superhighway and suffered the consequence of being wiped out as a result. If you blink you lose, and as technology advances, speed of decision and an ability to adapt fast to changing human habits and business models is essential. Today this phenomenon is having more and more of an effect on the insurance industry. As the speed of technology advances, and fresh opportunities appear, you need to stay focused in order to leverage technological change in a manner relevant to your business.

In the 1990's, IT solutions were sold on the basis of their business function, which meant that the business itself became the decision-maker of its fit for purpose which changed the role of the internal IT department to ensuring technical standards were being maintained.

Also in this period, the term 'legacy systems' was invented to represent all of the older style processing systems which as we know became very difficult to use and even more difficult to replace with the more agile, user friendly solutions coming to market. The smaller insurers could often leap-frog forward with new systems, leaving the larger insurers to deal with the huge legacy of mainframe systems to cope with. This was one of the few times where size and longevity were not significant benefits in the insurance market. Eoin Byrne, who was Operations Director in Norwich Union at the time found that "There were plenty of large data migration projects which were lengthy and manual."

Insurers also began to look outside their industry at other sectors such as Fast Moving Consumer Goods and Manufacturing. Not only did they have to think in terms of how they distributed products, but also in terms of how they designed, sold and serviced them and it was advances in IT that drove the whole transformation.

Padraic Mills recalls what it was like in PMPA, "Direct Telecover was new to Ireland and it took a huge mind shift for insurance underwriters to come round to the idea. However, the new technology allowed us to manage the customer directly and over the phone."

The development of EDI enabled associated parties in the insurance sector to work with each other more efficiently than ever before. Whether this was the link between consumers and insurers, consumers and brokers or brokers and insurers, EDI began to offer the potential for huge savings in time and administration.

In the personal lines market where this technology really took off, re-keying became a thing of the past for the most efficient practitioners and quotes could be offered and converted in real time at the point of sale.

We also witnessed the emergence of one of the most important technology advances since time began, the Internet, aka The World Wide Web. The emergence of The Web caused a huge stir in the global technology world and we witnessed the start of the dotcom era where pundits were predicting the end of business as it was

The IT Revolution in Irish Insurance

continued

and a new way of working over The Web. Obviously the ideas and predictions were slower to deliver (and hence we saw the dotcom bubble). However, many of the predictions became reality and new business models continue to emerge.

At the end of the 1990s, we had to face into the Y2K debacle, where analysts, consultants and IT gurus predicted aircraft would fall out of the sky and banks would become powerless to transact business due to a colossal failure caused by the way programmers had managed date calculation in their programs. Significant fortunes were spent trying to trawl through legacy system programs to correct the date issue and many of the 'Cobol Programming Brigade' found their skills in high demand and enjoyed a period of high earnings while they waded in to fix up their programmes of a bygone era. The gigantic amount of money spent on Y2K was money the business people missed out on and in effect the business took second place to this perceived survival issue of Y2K. In the end it came and went without a single glitch.

2000's – Outsourcing, SOA, Online Sales & Service, IVR, Mobile Technology

Since the turn of the millennium, the insurance industry in Ireland has begun to realise the full potential that all of the advances made in the 1980's and 1990's promised. The online environment has become hugely advanced and the integration between various means of communication has finally begun to allow insurers to genuinely create and maintain, in real time, a single view of their customers.

The growth of the internet has facilitated an integrated enterprise infrastructure that has enabled insurers to adopt a virtual production line approach. In essence, multiple players now provide different elements of the full product and service offering to the customer, under the banner of a single insurance company.

As we have seen in the current market, single insurers now offer many products across the spectrum in General, Life and Health. This is managed through the same distribution channels so customers have just one contact to access this entire range of products and services – a situation almost unbelievable 25 years ago.

In the drive to increase shareholder value whilst maintaining quality service, insurance technology is now facilitating insurers to outsource some or all processes to lower cost base centres. The customer's experience remains completely seamless regardless of which part of the world the physical processing is taking place.

This is a far cry from the independent stance carriers took thirty years ago and as time has moved on technology has also allowed insurers to push much of the workload on to their customers.

Technology and mobile 3G advances have also enabled insurance companies to get their customers to do for free what they once had to pay staff to do. This creates obvious administrative savings, reduces re-keying, improves accuracy and enables customers to feel in control and generate a faster service for themselves.

The Future

I don't know about you but for me the iPhone is the big technology invention that has made my life easier and it's become a tool I can't do without. Devices like this and indeed the new iPad will continue to open up new opportunities to us into the future.

Mobile Video Phones using The Web are on their way and the convergence of telephony, computing and media is going to drive all kinds of opportunities for us in the future. Can you imagine a person in a minor motor accident using a Video Mobile to register a First Notice of Loss with a claims person who is working from home, while the repairers are coming to tow the car away and a temporary replacement is also on its way? Now that's customer service for you.

In a more regulated environment of the future, technology must also play a major role. This is both from the perspective of being able to deliver more sophisticated assessments to the regulators whilst also keeping the costs of being compliant as low as possible.

Technology will also further allow underwriters to assess risk on an even more granular level. Technology can control the level of risk to the insurer, for example, sensors monitoring driver behaviour in real time or controlling the mileage allowances. Using innovative technology in this way will help customers reduce their premiums as well as help insurers reduce the risk.

Conclusion

We've certainly come a long way from the days when customer enquiries came in via letter or telephone and were then entered onto the insurance registers which were held in the company safe.

The advent of IT has affected us all and for the main in very positive ways. Certainly the insurance market has travelled an incredibly long way in the last 30 years. The next 30 are likely to be quite a whirlwind too.

Michael Kelly is founder and CEO of Ireland's largest insurance software company with over 300 people and customers throughout Europe, Africa, Asia Pacific and North America.

FINEOS is the global leader in Claims Management solutions for all Illness, Injury and Loss Claims.