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Featuring research from

Gartner

Insurers Seeking Partners to Deliver Certainty



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The global insurance industry has evolved considerably over the last few years, but not without its share of challenges. A slow recovering economy is a concern, while others such as stringent and confounding regulatory standards, a changing demographic

structure – particularly in the US and Europe will further shape the industry. As a result, insurance companies have a multipoint agenda in front of them. They need to manage costs effectively and increase topline revenue to face the economic times ahead; mitigate risks, expand to newer and emerging geographies and gain new customers to remain competitive. Some of the new regulatory standards such as the forthcoming Solvency II requirements in Europe also demand that insurance companies look at their risk mitigation strategies carefully.

One of the risk mitigation strategies is to engage a partner to deliver some of the services more efficiently and effectively. While the insurance industry has been more conservative than the banking and other financial services industries, it has outsourced its back office functions successfully over the years. However, they have historically looked at outsourcing from a cost and labor arbitrage perspective. As insurers look for growth opportunities, this outlook has changed. They now seek partners who can provide solutions to bring aboard transformational capabilities to provide operational and fiscal effectiveness. There is an increased comfort among insurers to outsource processes across the value chain: end-to-end administration involving all product lines like individual/group life and annuity products, risk products, savings and investment products etc. are now outsourced.

Demonstrating capital adequacy and managing risk is a daunting task for insurers. In addition, insurers constantly need to monitor and prevent fraud. The role of analytics in these circumstances cannot be understated and the need for a partner to efficiently provide the analytics solutions cannot be undermined. Predictive models for both fraud and risk management provide the insurers with not just the historical trends, but with the ability to predict and prevent future fraud and risk incidents.

The fact that 50% of Insurance providers are medium and small sized means that they are constrained by capital expenditure, when seeking domain expertise and best in class technology. Further, Insurers are finding growth potential from the emerging markets. Research indicates that both life and non-life premiums is growing rapidly in emerging markets such as Asia Pacific while stagnating in major markets such as North America. The shift in demand has caused insurers to seek partners to help in setting up green-field operations in these emerging markets. The platform delivery model, such as the one TCS provides addresses the needs of both these segments. The processing on a best in class technology environment with industry standard processes is gaining popularity and enables insurance organizations to minimize their Capital Expenses while offering greater operational control, increased user productivity, reliable technology support, continuous process improvements and enhanced speed-to-market.

At TCS, we believe that the next phase of outsourcing in the insurance industry will be defined by the domain expertise proven by the outsourcing partners. TCS partners with insurance organizations globally and serves the entire spectrum of insurance processes in life, property and casualty, annuity and pensions and health. In addition, our FORE methodology leverages our expertise across consulting, technology skills and business processes to help our insurance clients gain this advantage.

Source: Tata Consultancy Services

From the Gartner's Files:

A Quasi-Virtual Operating Model for Insurers

Global, midsize-to-large property and casualty and life insurers seeking to reduce costs and increase efficiencies will find value from adopting a quasi-virtual operating model. The model embraces use of external service providers and alternative delivery platforms to streamline the IT environment.

Overview

The quasi-virtual operating model is a new concept that extends current IT outsourcing (ITO) and business process outsourcing (BPO) strategies. By shifting from internal systems and project management to greater use of external service providers (ESPs) to support a wider range of tasks, property and casualty (P&C) and life insurers can transform and identify operational efficiencies.

Key Findings

- The “virtual insurance model” of the 1990s provides great insight into how midsize-to-large insurers can begin to transform business operations through greater use of ESPs.
- Greater use of ESPs will help with economies of scale and allow insurers to focus staff on value-added tasks/projects, which are more closely aligned with premium growth and profitability.
- Many midsize-to-large insurers are already using ITO and BPO providers for a variety of tasks. Adoption of the quasi-virtual model would be an extension of the current strategy to incorporate more strategic approaches around economies of scale, staff realignment and alternative delivery for software.

Recommendations

- Identify business processes and IT applications/systems that are commodity, are low risk and would cause the least amount of business disruption as a starting point. Insurers that have not aggressively used ITO and BPO partners in the past will find this less risky than starting with core activities and complex systems.
- Inventory pre-existing relationships with ESPs for ITO and BPO, as well as any hosted or cloud deployments, to see overlaps, gaps

and opportunities. Consider opportunities for ITO, BPO and alternative delivery for software/data services.

- Select ESPs with a similar culture, a great range of services, industry depth and expertise and that can be a trusted long-term partner (i.e., that have similar business models and financial stability).
- Ensure proper governance and change management as the company adopts quasi-virtual business principles.

Analysis

Insurers are continually seeking ways to improve operational performance and reduce cost of operations. One model beginning to emerge may be classified as the “quasi-virtual” operating model. This model combines a variety of approaches, such as BPO, to streamline business operations. It uses ESPs and alternative software delivery platforms to reduce the complexity and size of the organizational IT and business environment in order to control and minimize operational costs. This is a modern approach, which leverages concepts from the “virtual insurance model” of the 1990s. But it’s with a different approach, where large organizations can incrementally reduce redundancy and shrink the internal IT landscape.

To understand this model, insurers must understand its roots – the “virtual insurance model.”

The Virtual Insurance Model

In the 1990s, a concept was introduced by the industry and ESPs, called the “virtual insurance company.” These companies were generally startup firms or direct operations started by large, established insurers in order to enter new markets quickly, without building large infrastructures or having to modify legacy environments, which would not easily support Internet-based business models (see Figure 1). Companies emerged in mature markets around the globe acting as virtual entities. Key characteristics of these companies included small staffing models that supported only a few internal tasks (e.g., product development, underwriting and marketing) and using ESPs to support all other business tasks, as well as

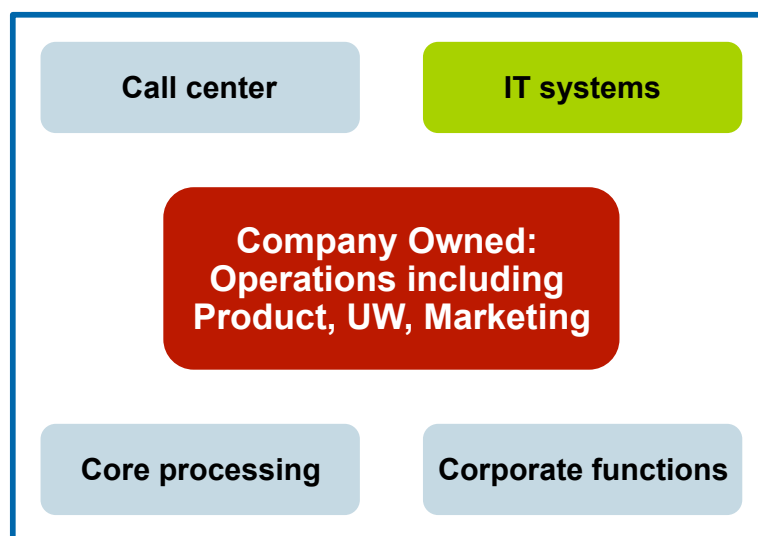
run the IT platforms required for the business. Typically, these organizations partnered with large-scale BPO providers. They provided the systems and staffing to run business operations that were not scopes for internal staff. Overall, these companies had a small geographic footprint, limited staffing and small facilities cost. They were able to challenge large, established providers due to their technology nimbleness and ability to quickly respond to shifting market conditions. They had an issue of branding and lack of consumer recognition, but that did not challenge them, given the niche markets they operated. Since their launch, many have disappeared due to the dot-com bust, or morphed into larger-scale operations. But many virtual insurers are still in existence in some form and successfully competing today.

What Can Large Insurers Learn From Virtual Companies?

While the virtual company may be considered a thing of the past, there were great lessons to be learned from this operating model for large, established insurers:

- Insurers do not have to perform all IT functions and business tasks. Many tasks and processes can be done by ESPs, which will reduce operating costs (if economies of scale are found) and free up internal resources to focus on more value-added tasks. Using IT
- services firms and BPO providers provides a good alternative for insurers needing to reduce costs for basic commodity tasks or to fill staffing gaps where highly skilled resources may be needed. Typically, insurers have had minimal use of BPO, and out-tasked instead of having ESPs support an end-to-end business process. Great opportunities exist in using BPO and IT services firms, both tactically and strategically, to help with labor arbitrage, but also in reducing the IT environment's complexity and cost.
- Economies of scale may be found in having specialists perform tasks that are either commodity in function (e.g., billing) or highly specialized (e.g., statistical or fraudulent model creation). Where an insurer may lack scale within its organization, an ESP can leverage a process across multiple insurers to produce this level of scale.
- Quality of tasks and projects does not diminish when done by ESPs. Many ESPs have repeatable, best-in-class processes, which have been modified over time and blended in best practices from the various insurers that they support. As a result, the outcomes may be improved versus when it is performed by the insurer, using its own intellectual property (IP) and a single lens of the process.

FIGURE 1 Virtual Company Operating Model



Green = ESP IT services
 Blue = ESP Business services
 Red = managed by the insurer

Source: Gartner (March 2011)

- Using an ESP may provide 24/7 customer service, which many call centers or staffing models of traditional insurers lack. This can be done in responding to catastrophes, to incoming communication during afterhours (e.g., IMs or e-mails coming in from the website or social media channels late at night) or for all end-to-end call center tasks.
- ESPs may be more up to date on emerging technologies – and at a faster pace than internal IT shops – because they specialize in that area and can share the cost of IT innovation across their client base. Today, this is not the case with many ESPs. Insurers should put this into their service-level agreements (SLAs) and contracts, and look for ESPs that have a reputation of innovation and forward-looking strategies.
- ESPs with global operations can support maintenance and development projects faster due to the 24-hour operating window. Plus, global delivery may allow for reduced project costs due to labor arbitrage in emerging markets.

Defining the Quasi-Virtual Operating Model

While there are not many new startups, which will be virtual in the P&C and life insurance market, large insurers can leverage the lessons learned to transform their IT operations. The trend is for large-footprint insurers to reduce their

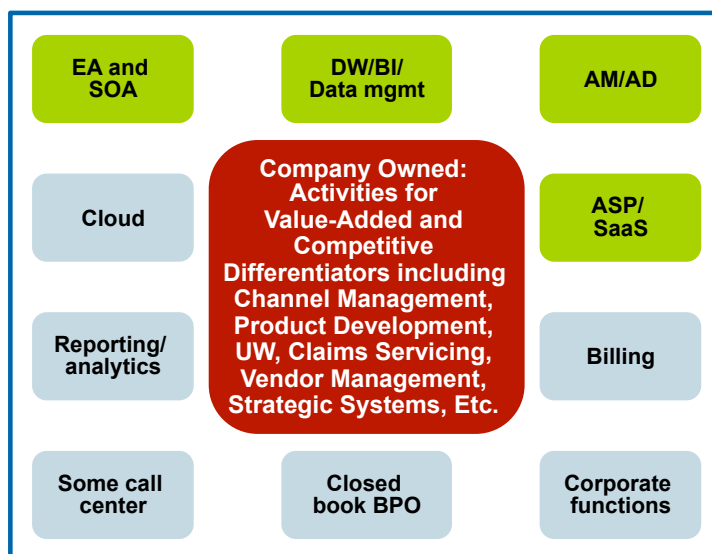
organizational breadth to focus on value-added and strategic activities. Gartner is seeing many midsize-to-large insurers reporting that they have more tasks to do than time allows, or have staffing limitations that constrict their ability to “keep the lights on,” while introducing new strategic projects.

To combat this trend, companies are more aggressively using ESPs and alternative delivery platforms to move tasks and IT maintenance outside their corporate walls (see Figure 2). The quasi-virtual insurance company strives to reduce the focus of the company through increased use of ESPs and alternative delivery to allow for more strategic operations and a lower total cost of ownership (TCO), long term, for its IT landscape.

There are three main areas where ESPs can contribute:

- IT services, such as application maintenance, application development, service-oriented architecture (SOA) projects, enterprise architecture (EA) assistance and support of data warehouses (DWs), business intelligence (BI), and/or data management, as an example. Filling staffing gaps in areas where trained professionals are difficult to recruit, such as enterprise architecture, will provide value-added services beyond traditional ITO projects for application development (AD) or application management (AM).

FIGURE 2 The Quasi-Virtual Operating Model



Green = ESP IT services
 Blue = ESP Business services
 Red = managed by the insurer

Source: Gartner (March 2011)

- Alternative delivery models for software and data. Having companies host the software in their data center or using software-as-a-service (SaaS) alternatives will help with installation costs and overall IT systems maintenance. This also would include using a “data-in-the-cloud” model for data needed for underwriting, risk analysis, actuarial tasks and claims modeling.
- BPO for tasks, such as closed-book policy administration in life insurance, billing and collections, corporation functions, and reporting/analytics, for example.

The tasks outsourced will vary from company to company, but each of the three opportunities should be evaluated. The most critical dimension is the shift to ESPs, which results in a refocus and shift in the IT department, including skills and staffing. Insurers need to leverage best practices from the virtual generation such as:

- Leveraging ESP partners to find operational cost savings
- Shrinking footprint
- Eliminating bulk
- Leveraging resources to move value-added tasks/projects, which contribute to premium growth

For many companies, this is an extension of their current operating model. Many midsize-to-large insurers are already using IT services providers – domestically, nearshore and offshore. A Gartner study in 2010, with a sample of 59 North American P&C and life insurers, found that 34% of life insurers, and 29% of P&C insurers, are already using IT services from an ITO provider. An additional 9% of life insurers, and 23% of P&C insurers, plan to outsource IT projects by 2011. Additionally, many insurers use BPO providers for a variety of tasks, including claims processing, call center/customer service, policy servicing/administration, regulatory reporting and corporate functions. For these organizations, the shift to a quasi-virtual model entails three critical changes:

- More strategic alignment of sourcing relationships
- Reshifting of job functions, within the internal IT department, to focus on vendor management, project management, enterprise architecture, business and IT alignment, and system integration

- Embracing hosted and off-site software models versus on-premises deployments

The outcome will be positive business results, including better economies of scale and a focus on strengthening core areas, which promote competitive advantage. However, the biggest challenge to this transformation is the culture of the industry. This may be difficult to overcome, and will require a change management program and executive management support. Finding a proper balance between internal governance and using ESPs more strategically may help large, established insurers to better compete, long term, and find the operational performance needed to support top-line growth.

Recommendations

P&C and life insurers should:

- Identify business processes and IT applications/systems that are commodity, are low-risk and would cause the least amount of business disruption as a starting point. Insurers that have not aggressively used ITO and BPO partners in the past will find this less risky than starting with core activities and complex systems.
- Inventory pre-existing relationships with ESPs for ITO and BPO, as well as any hosted or cloud deployments, to see overlaps, gaps and opportunities. Consider opportunities for ITO, BPO and alternative delivery for software/data services. Each has great value to insurance organizations, and should be explored.
- Select ESPs with a similar culture, a great range of services, industry depth and expertise, and that can be a trusted long-term partner (i.e., that have similar business models and financial stability). Shifting to a quasi-virtual operating model is a long-term organizational transformation, and therefore, partners should be selected more stringently than for normal ITO or BPO contracts. Partners should have a vested interest in creating long-term relationships and contracts, based on long-term results.
- Ensure proper governance and change management as the company adopts quasi-virtual business principles. Focus on communicating programs to staffing about the role of ESPs in the company’s future, ensure proper training and staff reallocation in the IT department, identify IT staffing gaps and focus on recruitment as needed, and create a stronger vendor relationship management office to manage core ESPs.

Evolution of the Insurance Sourcing Models



Interview with Arun Batra, Head – Insurance BPO Services, TCS

1. What is your perspective on the key growth drivers and challenges for the insurance industry?

Growth, cost pressures, operational issues, changing consumer behavior, legacy technology issues are the 5 key drivers for outsourcing in the insurance vertical.

- **Cost pressures:** While the recession had an impact on the net premium income; mounting claim expenses and upward movement of reinsurance premium in many risk classes has led to a pressure on margins for insurers. This coupled with increasing administration costs due to complex and ageing technology (especially with closed book), external regulatory and capital market conditions are putting tremendous pressure on insurers.
- **Growth:** Large insurance companies are looking at different avenues to increase business growth. With the US and UK markets nearing a plateau in growth rates, insurers are looking towards emerging markets across the continents – Asia, Latin America and Africa.
- **Changing consumer behavior:** Insurers are facing a bifurcated demographic of consumers – those that are technologically savvy and greater understanding of financial markets. These consumers, not necessarily loyal, are demanding greater product and services offering and leveraging technology to make choices. Then there is the ageing population that needs a lot more guidance and user-friendly options to avoid lapsation or churn in their portfolio.

- **Operational issues:** insurers are facing real business issues of increased fraudulent claims, operational complexities from M&A activities and an ageing workforce. Increasing cost of implementing changes for regulatory compliance is another driver for insurers
- **Technology challenges:** Achieving better returns on technology investment is becoming an increased challenge with the inability of legacy platforms to scale up to the market demands.

2. How do these drivers and challenges differ for the different segments in insurance – life, P&C and annuities?

While the overall business challenges in the 3 segments are largely driven by the above factors, there are individual nuances due to the nature of business and risk underwritten. These are briefly described below:

- **Life:** Increasing liabilities and cost of operations from closed book business is a continuous challenge. Implementation of new regulatory changes (IFRS, Solvency and healthcare reforms to mention a few) in the coming times will increase the burden on operational cost. Insurers are looking at solutions that can contain the costs for their closed book businesses.
- **P&C:** Process excellence and self service capabilities are key focus areas to improve customer stickiness. Insurers showing greater focus on increased customer experience especially in the claims processing and renewal management has been a focus for P&C insurers (mainly personal lines).
- **Annuities / Pension:** The challenge of an ageing population leads to a huge burden on the pension system across the developed countries. The recent recession has added a new dimension with even more reduced workforce plowing back into the pension pool.

3. In light of these growth drivers and challenges, what are the key solutions that the insurance industry seeks from its partners today? What can the insurance industry expect today from outsourcing service providers?

Insurance outsourcing is at a mature stage and moved beyond transaction activities. Insurance clients are echoing that they are now looking for a more robust value proposition, wanting to work with a strategic business partner, rather than a transaction based vendor.

Growing operational pressures are forcing Insurers to invest in solutions providing IT and Process convergence. These solutions could be around legacy modernization, innovation and / or operations efficiencies. The variation on where the Insurer would want to invest will depend of the line of business and the type of products offered by the insurer. For example, P&C insurers have a need to increase stickiness and they do this by enhancing customer experience, whereas Life insurers have a need to simplify administrative processes. We also see that claims processing outsourcing is led by P&C insurers and L&A insurers outsource new business, policy servicing and reporting.

Mature providers have a unique advantage of delivering solutions for some of the challenges that historically held back insurance process outsourcing. Insurers are actively leveraging mature expertise and maximizing returns in order to gain market leadership.

4. Over the years, how has the service mix for the insurance industry changed from an outsourcing perspective? How have outsourcing partners added value in the relationship?

As the markets continue to mature and providers strengthen their capabilities, the services outsourced are progressing from pure play transaction intensive processes (like new business data capture and policy servicing) to judgment based processes (like underwriting, claims adjudication, analytics and actuarial support services).

Vendors are becoming true partners to insurance companies by sharing their operational risks and have moved beyond service risk like performance and service matrix. This shift has been enabled by deriving significant benefits from the integrated outsourcing deal involving IT operations convergence (e.g. platform BPO). Deep domain expertise, vast experience servicing different insurers and cross pollination of best practices are delivering the insurers benefits that go beyond cost savings and quality improvements. Outsourcing partners need to aggressively invest in building offerings that enable insurers' ability to achieve their priorities of customer centricity, innovation and rapid product development.

Building an integrated IT-BPO offering is key to achieve this objective. Ability to integrate new distribution channels; and underwriting and service excellence are critical.

Progressive outsourcing partners have built offerings based on industry business needs, flexible technology solutions and the right shoring mix that support the operations and sustainability.

5. Insurance companies have previously explored the option of captives. What is your perspective on this?

Captive BPO had a historical benefit of greater control on processes. However as the scale of operations increased and the number of workforce in captives swelled, the challenge of managing these was growing. Few years ago the outsourcing vendors were also not mature in their capabilities to process high end processes. With time this challenge has been overcome and today many large outsourcing providers have deep domain knowledge coupled with the IT and process capability and a large ready to deploy workforce. Insurance companies are focusing on managing their core competencies around risk management and leave the operations to qualified outsourcing partners. They want to leave the responsibilities of having strong back-office operations run by specialists in the outsourcing industry.

We believe that captive BPOs will continue to fade as the combination of their relatively small scale and the rising scale of outsourcing vendors invalidates their economic logic.

6. How is TCS helping its insurance customers adapt to the needs of the market?

TCS actively works with Insurers as partners to achieve their business priorities of growth, new product launch, operational efficiencies, reduced costs and customer / partner satisfaction. Some examples of results delivered by TCS are:

- Faster time to market by partnering Greenfield ops for a US Insurance company entering India through a JV. Complete technology superstructure established covering Operations, BDNCS platform, data-center and infrastructure
- A 15% increase in field productivity in the emerging wealth management space with the skillful leveraging of salesforce.com combined with TCS's domain expertise

- Savings of USD 17 MM over a 3 year period through re-engineering of the underwriting process for a large global Insurance company
- A 50% reduction in operational costs with improved customer satisfaction / retention for BPO and retirement services

7. How do you see the outsourcing of Insurance processes evolve over the next few years?

The insurance outsourcing landscape has changed drastically in the last five years. Insurance companies have been subject to a variety of changes in their business environment, of strategic significance to their outsourcing activity. Core business activities that were once unimaginable for offshoring are now being seriously reconsidered. Cost containment, process optimization and effective tapping of domain expertise are key requirements.

With the growing convergence of IT and Operations we are seeing greater traction in outsourcing of high end processes like underwriting claims processing, actuarial and analytics support enabled by platform based and Technology led rule engine. In the next 4 - 5 years we expect insurers to actively outsource core services like actuarial, product development support, claims and underwriting among others. Transaction intensive processes like policy servicing will leverage greater straight through processing (STP) and self service options. We will see greater demand for full service offerings in the areas of closed block administration and pension administrations.

Source: Tata Consultancy Services

Creating a Platform for Success



Interview with Kurt Neilson,
Senior Relationship Manager, Phoenix Life

Note : Diligenta is a UK based, Financial Services Authority (FSA) regulated subsidiary of Tata Consultancy Services (TCS)

1. Looking back, what were the business challenges that you saw in 2005 when you sought out a partner to deliver Closed Book operations for you? How have the business challenges evolved in the last 5 years and what impact has it had on your expectation from the partner?

There were various challenges facing Pearl at the time. As a closed book consolidator we had a predictable income stream from the 3m policies under management but this income would reduce as the policies ran off over time. Our cost base was a mixture of variable and fixed costs and ideally we wanted a provider who could give us more cost certainty at a fair price. Through partnering with Diligenta, we were able to remove the majority of fixed costs and link our expenses to the run off of our policy portfolio. We were also keen to transform the business and move away from the 11 legacy computer platforms that we were using. We embarked on a programme with Diligenta to migrate from the 11 platforms on to 1 platform (BaNCS) and this programme is now in its final phase. The challenges have remained over the 5 years and heightened in certain areas due to the economic position since 2008 (which has led to us not acquiring any further books of business). This has not necessarily changed our expectations of Diligenta but it0 has meant that delivering on the contractual promises has become even more important for us.

2. What were your criteria for choosing a partner in 2005? What aspects of the TCS/Diligenta solution were particularly appealing to you?

Pearl selected Diligenta for a number of reasons including:

- TCS's quality and experience in business process outsourcing.
- The good value of the service charges which helped us to achieve certainty over a major portion of our cost base for the next 12 years.
- TCS's commitment to establishing the former Pearl base in Peterborough as its centre of excellence for Life and Pensions BPO.
- TCS's proposed solution to transform the services by consolidating 11 systems onto a single platform.
- The ability to take advantage of the leverage and buying power of the TCS group.

3. How has the partnership with TCS/Diligenta evolved? What would you rate as the highs and lows in this relationship?

The partnership has evolved well although there have of course been some difficulties over the years. The transformation programme was extremely challenging and perhaps got off to a slow start before building momentum towards the end of 2009. There have also been disagreements along the way but through the strong relationship that our two companies have, we have always been able to reach a mutually satisfactory outcome. The highs for me have been the acquisition of the UISL business in 2010 and the completion of the initial transformation programme in 2011.

4. As the world went through a Financial Crisis, what role has TCS/Diligenta's solution had in your ability to be agile in responding to the needs of the market?

Diligenta have been a safe pair of hands for our policyholders and internal service recipients during what have been turbulent financial times.

The cost certainty that we achieved through agreeing a price per policy charging basis meant that we were not exposed to unexpected shocks during this time allowing us to concentrate on de-risking other areas of our business and reducing our exposures to volatile markets.

5. As a large organization, you possibly work with a variety of partners. How does TCS/Diligenta differentiate itself in your mind?

We work with a number of service providers, some large and some small, but Diligenta does come across as an organisation that is very customer focused and determined to make things happen. I believe that both parties have a better understanding of what was to be achieved through the outsourcing agreement and this means that we do not usually have to refer to specific contract clauses very often.

7. If you were required to go through the engagement journey all over again, how differently would you do it? What advice would you give to a peer who is embarking on a similar journey?

There have been many learning points along the way but the majority of these relate to internal Pearl employees. It is sometimes difficult to make the transition from doing the work in-house to outsourcing it to another provider. Many of our roles changed over night into oversight roles and I think the key learning for me is to educate these people as early in the process as possible.

8. What objectives have you set for yourself and TCS/Diligenta over the next 3 years? How do you expect the partnership to evolve further to address these expectations?

It is vitally important to us that Diligenta is a successful, profitable organisation. Over the next 3 years there will be the completion of the next wave of transformation, more work being offshored and potentially new books of business being referred to Diligenta to manage on our behalf. We will look to Diligenta to continuously improve the services to our policyholders and make full use of the BaNCS system and its internet capabilities.

Source: Tata Consultancy Services

Business Transformation to Deliver a Certainty of Customer Experience:



Interview with Cathy Mahone, SVP of Enterprise Operations, Allianz Life

Interview with Cathy Mahone, SVP of Enterprise Operations, Allianz Life

1. What were your business objectives and challenges? What were your objectives for outsourcing?

Allianz aims to be the leading innovator of financial solutions for consumers who want protection, income and the guidance of a trusted financial professional. Post the economic meltdown and going forward into an uncertain economy, our primary goals were to remain competitive and maintain our market share. In order to do that, we wanted to reorganize our operations and focus on our larger goals. We also wanted our people to focus on distribution and relationship based activities and let the transaction based activities be taken care of by a competent partner.

We had 3 main objectives for outsourcing. The first was, of course, to reduce expenses and the variability in our volumes. The second was to improve our quality and reduce cycle time on key processes. And the third, as mentioned before, as part of our service strategy, we wanted to spend time on distribution building, adding more value added services and deepening our relationships.

2. What were your primary reasons to choose TCS as your partner?

Allianz was looking for a global vendor with proven capabilities to assist not only in our operational strategy, but also in our business transformation journey. This entailed not only helping to improve the existing business

service levels but also partnering with Allianz in transforming its business to maintain its leadership position in the North American annuities market. TCS's robust and mature processes, coupled with their extensive technology expertise and domain experience assured us that they were the ideal partners for this journey.

3. What were the transformational elements introduced by TCS and how did it help your organization?

As mentioned before, our focus was to remain competitive and bring in new and innovative products to retain our market share. Allianz partnered with TCS on a strategic initiative to transform its Licensing, Contracting and Appointment (LCA) processes. The company felt that it could introduce new and creative products faster into the market, by reducing the end to end cycle time through the automation of business processes and elimination of redundancies. The transformation would also reduce complexities through the consolidation of systems and data, and help to effectively manage compensation data across the fixed and variable product lines. In addition, this consolidation would also create a single view of information that reduced/eliminated the manual processes in synchronizing agents.

To help us through this transformation, TCS drew upon its extensive internal processes and models as well as partnered well with best in class providers to come up with a solution. They re-engineered the company's LCA processes and migrated the data from the source legacy systems to the new agent management system.

As a result, we were able to reduce the staff dedicated to the functional processes by about 40% while maintaining the same transaction volume. The engagement also gave us mass processing capabilities that enabled about 50 - 60% savings in cost and time

4. How did TCS help achieve your business goals?

We engaged with TCS to support our key functions in claims, disbursement of funds, as well as keying of new business applications.

TCS used its delivery excellence framework to provide superior service levels for Allianz, thus helping the company maintain a leadership position in the industry. TCS's robust transition and knowledge transfer processes have helped to take the operations to an offshore location with minimal disruption. We not only realized substantial operational cost savings, but also a significant increase in service levels and consequently better customer satisfaction.

5. What has been the most crucial factor in your partnership with TCS, in line with your business goals?

I think in the last year, our performance has improved significantly in various areas like reduction on customer error rate, increase in customer satisfaction and improvement in cycle time.

We also improved our position among our competition and through industry surveys such as Market Metrics, NPS, OMR demonstrated this success. Our best testament came directly from our distribution partners:

- Fixed Advisory Board stated, "We are the best and a key differentiator"
- Variable Advisory Board said, "We made huge improvements in 2010". We received a standing ovation from them and went from "unacceptable" to "outstanding".
- Life Advisory Board also commented on the great improvements we made in 2010.

6. What is the business value realized by your organization with TCS's solution?

Most significantly, we saw reduction in our transaction processing time. Our non-transactional non-financial transaction processing time reduced from 5 - 10 business days to 2 business days, while the financial transaction processing came down from 3 business days

to same day. We also achieved a reduction in customer facing errors and a 10 – 15% reduction in number of calls to the call center. Most importantly, we were able to free up our resources to take some of the core activities such as some transformation projects and relationship-based activities.

7. How did TCS instill delivery certainty in the engagement?

While the engagement has helped us bring substantial cost savings and operational effectiveness, TCS also brought in the best in class processes. The team also utilized TCS' business process re-engineering approach to adapt processes for a multi-location environment and identify key risk areas and flaws in the process, which were fixed before moving them to remote locations.

The TCS team utilized the expertise of different in-house groups to bring additional value to the offshore operations efforts. They utilized some of their frameworks and models from the TCS Insurance Innovation Lab and the TCS Assurance Practice to optimize our processes.

8. What would be your advice for first time buyers?

It is critical for a first time buyer to truly partner with the outsourcing service provider. If they are able to provide insights into the vision and mission of the organization, the outsourcing partner will be able to align themselves to the business specific goals. This will allow TCS to align their delivery towards the collective actualization of these goals. Over the years, there have been innumerable instances in which TCS proactively suggested solutions leveraging multiple cogs of their delivery channel. This was possible because we always showed them both micro and macro objectives.

Source: Tata Consultancy Services

Insurance Sourcing Transformation : Industry Perspective



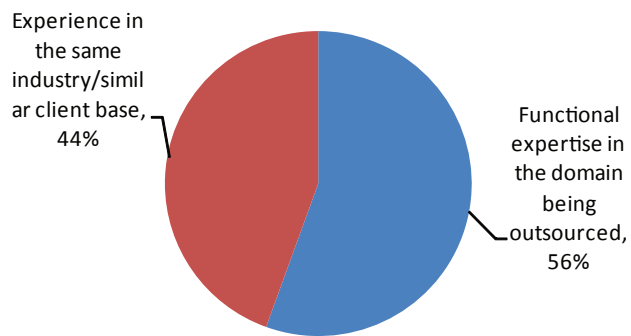
Shyam Kerkar, Head – Marketing, Business Process Services

The insurance industry has outsourced its business process functions for decades now and has reached maturity. Insurers started out with outsourcing under the premise of improved efficiencies and cost saving. However, as the industry undergoes a sea change due to factor such as the recessionary economy, regulatory changes, demographic shift, shrinking premiums and reduced profitability, their expectations have changed. They now seek integrated views of

current and prospective clients to facilitate new business acquisition. To cope with the increasing market, customer and regulatory pressures, insurers are seeking partners that can help them innovate and transform operations, improve customer experience, while continuing to reduce operating costs.

TCS conducted a dipstick survey among buyers in the insurance industry to understand the market sentiments and revalidate the TCS understanding of the insurance BPO market. This article discusses the findings of this survey which reinforces TCS’s belief of the increasing

FIGURE 2 Buyers clearly looking at industry and domain expertise



Source: TCS

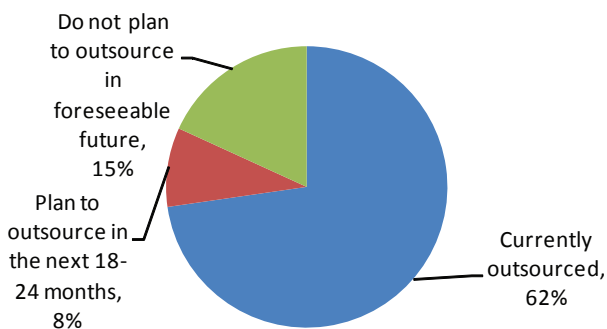
maturity and the need for business excellence and transformation in this market.

As expected, majority of those surveyed (62%) were already outsourcing their business process services. A small percentage of respondents were considering outsourcing in the next year or two. This indicates the maturity that insurers have now reached in the outsourcing market.

More than half of the respondents in our survey indicated that they would prefer a partner who had functional expertise in the domain. This is a clear instance of the maturity of outsourcing in the insurance industry, where core and strategic processes are being outsourced. This was further corroborated by the rest of the buyers in our sample who indicated that experience in similar industries or with clients in this industry would be helpful.

Buyers are clearly asking for amalgamation of processes and technology when they seek

FIGURE 1 Majority of insurance buyers are already outsourcing



Source: TCS

transformation. This is evident when close to half (46%) of our buyer respondents said that process standardization was a critical transformation element in the outsourcing relationship. The other aspects that were important were people consolidation and automation to minimize labor.

TCS's FORE™ methodology helps buyers accelerate their transformation journey to achieve their business goals efficiently and effectively. FORE uses multiple approaches to transformation using levers across Structure, People, Process, Controls and Technology and Analytics. The methodology's demonstrated success in guaranteeing robust execution, mitigating risk and in, driving growth across industries & peer groups provides an added comfort level to buyers.

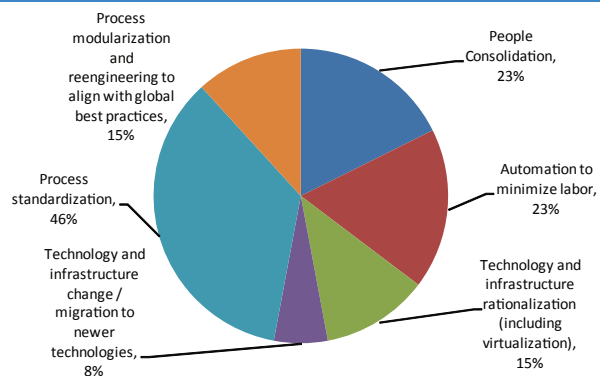
TCS, in the survey, asked buyers and advisors to prioritize the factors to be considered when embarking on a transformation journey to efficiency & effectiveness. Process simplification and rationalization and adopting industry best practices were highly important to buyers. Another important aspect was insights into available data. As more strategic processes are getting outsourced, buyers will derive the value from outsourcing knowledge intensive work to outsourcing partners.

Engagement models are evolving and buyers are adapting to cloud or utility based models. This is imperative as outsourcing service providers are able to provide the technology and the industry expertise to their clients in a cost effective manner. Buyers, according to our survey, are also adopting these models, with almost a third of our respondents saying they would prefer their infrastructure hosted over a private cloud. About a fifth are willing to let the service provider manage with enough transparency for them. However, there were a few buyers that felt more strongly about custom deployed infrastructure in their own environment.

TCS brings into each of our engagements over 3 decades of experience mixed with learning and assets from working with over 90 regional and global insurers. This enables us to be a transformation partner and a true catalyst for change in overcoming current constraints and obstacles to achieving business goals. Our full-services play offerings are backed by our expertise across all industry segments and the entire insurance value chain.

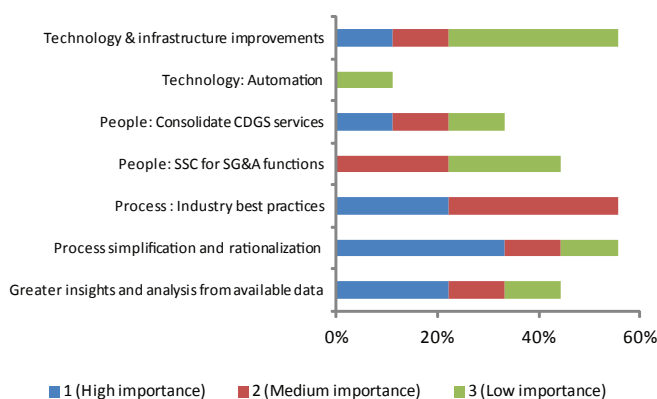
Source: Tata Consultancy Services

FIGURE 3 Process standardization is critical to transformation



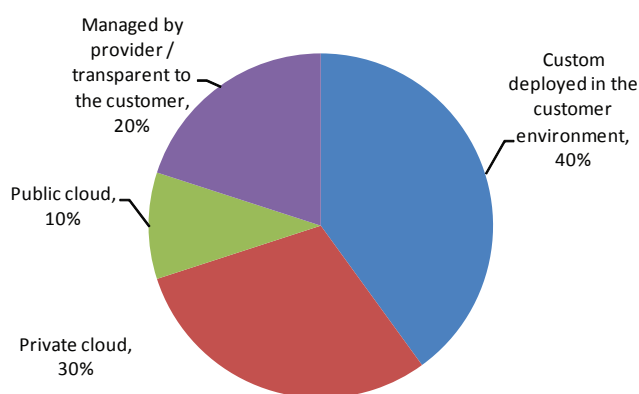
Source: TCS

FIGURE 4 Process standardization is critical to transformation



Source: TCS

FIGURE 5 Cloud services are catching up



Source: TCS

Straight through Processing – the Mandate for Insurers Today



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Insurers worldwide are operating in a challenging environment, with issues ranging from plummeting demand from retail customers due to recession, to deep concerns over the dwindling investment incomes with the vagaries of the stock markets. Simplification of the Insurance Application Landscape has been a key step which has enabled insurers to face the common challenges posed by their core legacy systems. Considering that flexibility is a core requirement for the future systems, cost is the most common quantifiable justification for simplifying and consolidating insurer's application portfolios. Successful insurers have been guided by some key values in their operation like Quality, Efficiency, Customer Satisfaction and Leadership. An insurer's success in the market is defined by the Brand Strength built, supported by the Product Features and effectiveness of its Sales and Service. Operational Excellence is the mantra for every insurer today; the race is on to do things better and faster in servicing customers, agents and brokers alike. Pressures of rising costs make it imperative to streamline operations and avoid repetitive and redundant tasks. This calls for the simplification of processes and process modifications to achieve efficiency in operations by adopting Straight Through Processing.

For the Insurance industry, STP involves smooth flow of transactions whether in the underwriting or in claims functions. STP gives insurers the flexibility to automate and optimize business processes while reducing manual processing and the associated errors. It also provides real time access to vital

information to answer customer and channel partner queries by call centers. Insurers are able to reduce time to process transactions from the quote submission to policy issuance. With a high degree of automation for pre underwritten policies such as auto or home, STP helps insurers reduce the cost per policy to underwrite and issue a case. Insurers rely on STP as a necessary infrastructure for future growth.

It starts from the source where the transaction originates, be it the customer or the channel partner to its end completion, without duplication of efforts or manual handoffs. The data once keyed in at the starting point, say a quote request by the customer passes on through subsequent processing steps like quote issuance with the rating tools providing automated rating, customer acceptance through electronic signatures and immediate policy binding and issuance after the financial transaction. There is a single solution which takes care of data from a point of entry by a customer/agent/claimant. The system based on STP ensures seamless automation, integration and validation during the journey of a transaction across the entire insurance organization and its partners.

Business Drivers for STP Introduction

A greater impetus for STP comes from the convergence of insurance and financial services. With the dissolution of strict boundaries between insurance and finance, there is a growing need for cross-industry standards to exchange data not just within an organization, but externally with business partners such as customers, carriers, agents and brokers. Many insurers look at streamlining operations such as application processing and claims. There is a need for 'Customer Friendly' processes. STP paves the way to move away from highly paper-driven processes, while reducing manual processing and the associated errors and provides scalability to handle increasing transaction volumes. STP helps to reduce processing time since the processing is enabled by several important components such as web enabled quote system, electronic application, electronic signature, real time applicant data verification system, online payment capabilities (EFT and Credit Card) etc all of which work in tandem to process the transaction seamlessly through various stages.

TCS Recommended Approach to Achieve a True STP Implementation

Though the term STP has been loosely used to include projects which bring in a high degree of automation, there are certain key attributes or features of STP which are to be achieved before the final completion of a full STP implementation, as observed with our experience in working with insurers. Some of these listed in Figure 1 to the right are discussed further.

Eliminating handoffs involves study of the workflows and the handoffs, along with the various system interfaces, which would also involve external parties. **Eliminating Duplicate Efforts** follows a thorough study of the business process itself. Techniques like Business Process Management come in handy. **Discarding Paper** has been largely facilitated by electronic signatures; the exercise usually starts with simplifying and reducing the details in forms to a required minimum. Experience shows that a successful STP implementation with a high Return on Investment (ROI) involves streamlining business processes and workflows to **take the system 'Out of the Box'** to the extent possible without making modifications and getting into the loop of reinvestments to reap the planned benefits. Deciding the best approach for an STP implementation would involve decisions on whether the insurer would like to follow a Big Bang approach and do an end-to-end STP implementation across all product lines and functions. STP implementation can also be done one step at a time while ensuring that each step is planned to be consistent with the past and future developments. The approach for an end to end STP implementation with the resultant benefits is highlighted in Figure 2.

An alternative approach would be to go for a partial and phased implementation. The business drivers which favor a partial STP implementation include:

- Revamping the core business process to be more competitive
- Reducing Time to Market on New Business (NB)

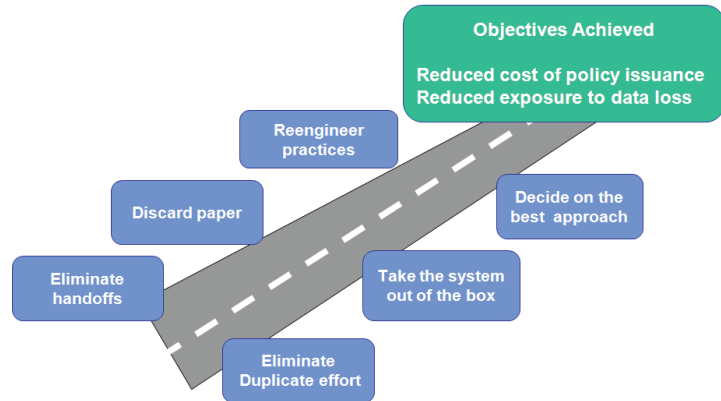


Figure 1 - Journey to complete an STP implementation

- Introducing process simplification with an aim to improve customer/agent satisfaction
- Reducing manual processing and the associated errors prevalent in key processes
- Adhering to industry standards that enable real time processing with third party vendors

The implementation strategy for such a partial STP implementation recommended by TCS would be:

- To identify the specific problem areas within the application and work on the right solution
- To implement a partial STP without disrupting the existing processes
- Instance of partial STP application include E-signature application, Auto underwriting system and Identity verification systems

Challenges in STP Implementation

It has been our observation working with insurers globally that like many other new technology initiatives, for an insurer, any STP implementation is likely to encounter impediments.

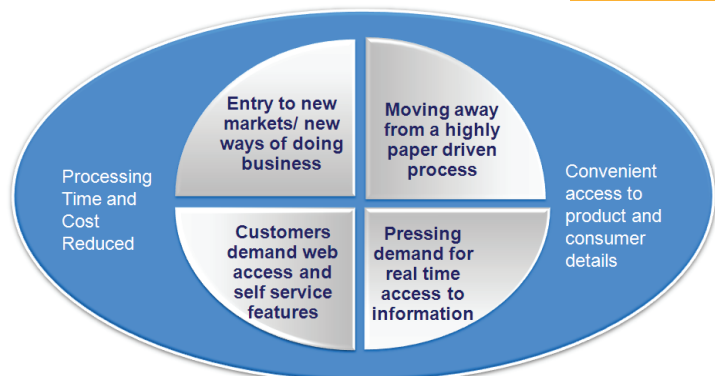


Figure 2 - Drivers for end to end STP implementation with benefits

- **Composition of existing IT Systems:** Many of the existing IT systems of insurers are built around a host of applications that are:
 - Commonly designed to accomplish one narrow business function
 - Usually built with a data focus rather than a business process focus
- **Frequent changes in regulation**
 - An insurer operates in a highly regulated environment
 - Regulatory changes affecting the operations of financial institutions such as banks and channel partners also throw challenges with changes to be made
- **Moving away from highly paper-driven processes**
 - Many insurers' underwriting and policy issuance processes are manual to a large extent and paper-intensive, with many records and forms built in to substantiate transactions
- **Enabling Web-based Access**
 - The legacy policy acquisition platform sub-systems often have to be enhanced to support web-based access by agents, brokers and customers
- **Reducing Cycle Time**
 - Often the existing manual process takes many days from sales interest to policy issuance. The challenge is to bring down the time effectively in order to justify the investment in STP

- **Eliminating Manual Processes**

- Any new business acquisition process requires many manual steps, including data entry of applications forms. An STP application needs to provide users with capability for self-service and application maintenance which is easy to use.

Best Practices Recommended for STP

Implementation: A set of Best Practices, would serve as guidelines for insurers, which pave the way for the most efficient and effective way to reach the intended goals of investment in STP. Many insurers have benefitted to take up New Business (NB) underwriting as a priority for investments in STP, where automated underwriting rules, electronic signatures and various other Best Practices have a role to play. Insurers have long realized that investment in the NB areas is vital to keep the customer and channel partner's satisfaction high. The trend has been to combine adherence to legal and regulatory requirements also while moving to a straight through process. We could consider the standards from industry organizations as the most significant one of the STP enablers.

The Enablers towards an STP implementation are listed in Figure 3. A successful STP implementation for procuring New Business could be soon followed by investments to bring in endorsements, renewals and claims in the STP net. These initiatives are largely benefited by adoption of Best Practices such as Electronic Content Management along with Business Process Management and Workflow redesign. Electronic Content Management systems provide data to be captured from image using Ink Character Recognition/ Optical Character Recognition technology and then fill the application form, which is highly beneficial to insurers. STP in claims has been enabled by field adjusters uploading documents and photographs from the accident scene using wireless networks from mobile devices. Likewise, insurers have seen drastic reduction in the 'Turn Around Time (TAT)' for claims settlement using automation at the First Notice of Loss process using algorithms or models, to assign work to adjusters based on factors such as their availability, skill set or calendar.

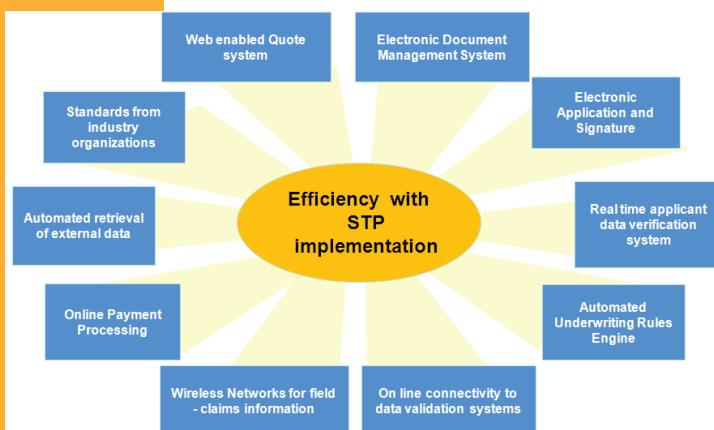


Figure 3 - The spectrum of Enablers for Straight Through Processing

Business Type Providing Focus for STP Efforts

A question may often arise, like “When does the process which is sought to be enhanced with STP initiatives actually start?” Earlier transactions took place even after reaching the carrier’s systems. Today, STP which is primarily intended to provide ease of use to all channel partners, looks at the smooth flow of the insurance transaction from the source of its origin, be it the customer or channel partner, without re-keying data at any stage till the final output, which is the insurance policy reaching the policy holder. The focus now shifts to ensure ease of dealing for the producers and promoting their stickiness with the carriers. However, an approach of ‘one size fits all’ is not quite appropriate for implementing STP, as varied approach is required for different insurance product types.

Property and Casualty Insurance Personal Lines moving towards ‘Exception based underwriting’.

Underwriting is slowly moving to be reckoned as a ‘Science’ rather than as an ‘Art’ with more automation. At present, there are detailed and externalized rules captured in the rating systems and sophisticated rules engines. STP adoption for personal lines insurance has seen a high level of implementation with channel partner and customer satisfaction with quick sales and service being the prime driver.

STP for commercial lines – Partial Implementation is the preferred approach:

- Commercial insurances move slower to an STP mode since there are multiple coverage options and more variations among risks, which justify the scrutiny of an underwriter for prudent underwriting.
- Another issue with underwriting commercial risks is the challenge in pricing, where the price is varying largely with an analysis of key factors such as loss ratios, risk characteristics as well as the insurer’s experience in the particular type of risk.

Life Insurance

STP for life insurance products is at a lower level of implementation. Its application has been largely limited to simple life term products, accidental death and dismemberment policies. STP is yet to catch up in a big way with investment focused life products, which involve a lot of discussions and re work, before finalization.

Conclusion

STP has gained wide acceptance as a priority technology for implementation by insurers and is the mandate for insurance operations in today’s insurance markets. The trend in investments in IT systems made by insurers in recent times, include some key areas which pave way for simplification of the application landscape like:

- In agent portals, electronic quoting and application submission, Straight Through Processing to underwriting and policy issue, process transparency in new business, commissions details, integration with agency management systems, information on policyholders, the facility to download documents (such as forms, proposals and letters) and real time information on leads.
- In policy administration, key elements are Straight Through Processing, conversion, migration and integration tools, platform changes to enable ACORD XML and SOA, intuitive user interfaces and upgrades for scalability.

In any insurance market of the world, insurers are driven by some key goals such as capturing business share from competitors, cost reduction and capitalization of new business opportunities. STP holds the key and is expected to gradually become the way of quoting and finally the most important technology in the entire underwriting and policy administration functions of carriers, in commoditized insurance products.

Source: Tata Consultancy Services

About Tata Consultancy Services (TCS)

Tata Consultancy Services is an IT services, consulting and business solutions organization that delivers real results to global business, ensuring a level of certainty no other firm can match. TCS offers a consulting-led, integrated portfolio of IT and IT-enabled infrastructure, engineering and assurance services. This is delivered through its unique Global Network Delivery Model™, recognized as the benchmark of excellence.

A part of the Tata Group, India's largest industrial conglomerate, TCS has a global footprint and is listed on the National Stock Exchange and Bombay Stock Exchange in India.

Business Process Services (BPO) at TCS is about managing & executing business operations. Our domain expertise helps deliver core business processing across industries, analytics & insights and support processes such as accounting, HR and supply chain management. TCS is unique in its ability to not only help drive efficiencies in SG&A processes but also drive effectiveness and help boost revenues through COGS processes.

TCS BPO has more than 35,000 employees delivering services across 175+ customers, contributing to 11% of TCS revenues. With \$ 1 Billion+ in BPO revenues, TCS is one of the largest Business Process Services providers globally.

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