

Business Process Management for Insurance

**Maintain Market Share and Profitability
With a Staged Approach to BPM**



People matter, results count.

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1 Introduction

Over the years, companies have maintained a competitive edge by improving and optimizing their business processes without compromising efficiency, quality, and response time.

Since the Industrial Revolution, process management techniques have continuously evolved, from process definition and workflow management to process improvement and reengineering to today's business process management (BPM). While other industries have adopted BPM for their core processes, the insurance industry has been reluctant to implement BPM in its core areas like underwriting and claims. Lately however, insurers have come to appreciate the advantages and successes of BPM, and are implementing it at a growing rate.

In this paper we explore the BPM market and its latest trends, and identify the advantages that BPM can provide to the insurance industry. We then take a look at the challenges that an insurer can face while implementing BPM and how they can achieve an effective BPM implementation.

2 Business Process Management: Trends & Advantages

The BPM market is expected to grow at a rapid pace (12.2%¹) over the next few years with emerging markets such as Asia Pacific and Middle East & Africa leading the way. BPM providers are consolidating with only 25 BPM vendors in 2009 compared to 150 in 2006.²

BPM is set to become a major force driving various industries across the globe, including financial services:

- By 2012, an estimated 20% of customer facing processes will be assisted by BPM.
- By 2014, an estimated 40% of business managers and knowledge workers in Global 2000 enterprises will use comprehensive BPM models to support their daily work, up from 6% in 2009.³

According to BPM industry research⁴, 94% of the firms surveyed have already implemented BPM or have plans to implement BPM initiatives within the next three to five years. Only 6% of the firms interviewed had neither implemented, nor planned to implement, BPM initiatives.

This research indicates that most companies across all industries have been adopting BPM. Rather than being a differentiating factor, it is turning very quickly into a core strategy for firms to maintain their competitiveness.

2.1. What is Business Process Management?

Business process management helps an organization to monitor and optimize their processes continuously. While each company's processes and needs are different, BPM enables any organization to enhance its operational efficiencies on a continuous basis, thereby providing a competitive advantage.

There are many ways to define BPM and generally the definition depends on the context. For example, Gartner defines it as a "...management discipline that treats business processes as assets that directly improve enterprise performance by driving operational excellence and business agility."⁵ *PC Magazine* defines it as "A structured approach that models an enterprise's human and machine tasks and the interactions between them as processes."⁶

In Capgemini's experience, BPM can best be described as a set of activities carried out by organizations to optimize their business processes and/or adopt their business processes to new organizational goals. Here, a business process is defined as a series of coordinated actions, conducted by **both people and tools**, resulting in the accomplishment of a specific organizational goal.

¹ Business Process Management: Global Market Forecast Model to 2014, Datamonitor

² "Magic Quadrant for Business Process Management Suites", Gartner 2009

³ Research Conducted by Gartner, <http://www.gartner.com/it/page.jsp?id=1278415>

⁴ Research conducted in 2009 by Transformation & Innovation in conjunction with BPM Education Associates, BPM.com and the Workflow Management Coalition on 500 firms.

⁵ Gartner IT Glossary, <http://www.gartner.com/technology/it-glossary/business-process-management.jsp>

⁶ *PC Magazine* Encyclopedia, http://www.pcmag.com/encyclopedia_term/0,2542,t=BPM&i=38884,00.asp

The Next Wave for BPM: Integrating with Business Intelligence and Analytics

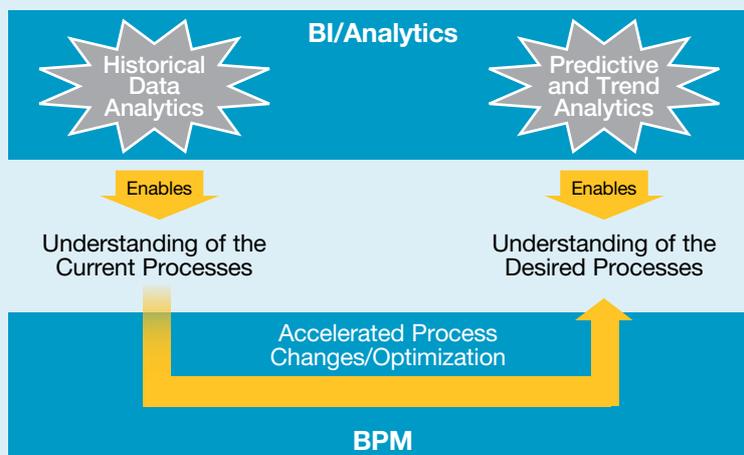
Business intelligence and analytics enable decision makers to gain a better understanding of the current state and the desired state of their business processes. Common analytics include:

- **Historical Data Analytics** looks at past and current data to make it easy to understand.
- **Trend Analytics** looks at current data to uncover trends which can help redesign a process.
- **Predictive Analytics** helps to determine future decisions based on predictions made using past and current data trends which enables the design of a new process for future use.

Once the current and desired state of processes is determined, BPM serves as the foundation to build the required changes.

Stand-alone implementations of BPM, business intelligence, and analytics can yield numerous advantages. But organizations can maximize benefits by leveraging synergies between these areas. In fact, according to a recent survey of 335 IT leaders by CIO.com⁷, 65% of the respondents indicated that business intelligence and analytics spurred the business process changes and the need to implement BPM but only 41% indicated that they had actually integrated both these disciplines. Organizations still need to take the next step forward to integrate BPM, business intelligence, and analytics to ensure a new wave of benefits.

Exhibit 1: Integration of Business Intelligence and Analytics with BPM



Source: Capgemini Analysis, 2011

⁷ CIO.com article http://www.cio.com/article/597059/Business_Intelligence_Meets_BPM_Using_Data_to_Change_Business_Processes_on_the_Fly

2.2. Why Use Business Process Management?

Business process management has helped financial services firms realize numerous benefits related to operational efficiency and business innovation. Moreover, many firms claim⁸ that they have achieved a more than 100% rate of return on their BPM implementations. While the methods used to measure rate of return vary according to the firm, the most widely used method among firms is 'cost savings per transaction'.

2.2.1. Operational Efficiency

- **Enhance employee productivity.** BPM helps automate manual tasks, freeing employees to focus on higher value activities.
- **Speed-up processes.** BPM enables faster decision-making and improves the operation of all business processes.
- **Increase partner responsiveness.** BPM tools allow partners to get on board and respond faster.
- **Better manage inventory.** BPM brings improvements in processes that result in superior inventory management.

2.2.2. Business Innovation

- **Enhance product capabilities.** Using BPM results in agile product design and an improved ability to implement new products.
- **Increase new business.** BPM enables innovative ways to approach a business problem and can help bypass traditional obstacles.
- **Raise customer service levels.** BPM enables faster and more flexible responses to customer needs and queries, and improves the accuracy and quality of customer service.

⁸ Research conducted in 2009 by *Transformation & Innovation in conjunction* with BPM Education Associates, BPM.com and the Workflow Management Coalition on 500 firms

3 Business Process Management: How Can It Help Insurers?

While most of the challenges faced by insurance companies are similar to the challenges faced across all industries, insurers must particularly focus on increasing cost effectiveness and better managing risk. At the same time, insurers must enhance agent and client satisfaction to increase market share. It is important that the underlying IT systems supporting insurance transactions or processes are streamlined, agile, and flexible. Insurers can strategically leverage BPM technology to bring agility to IT systems and address other industry challenges.

3.1. The Emerging Focus of Insurance Companies Worldwide

Over the past two to three years, interest in business process management has been rising among property and casualty and life insurers. To date, adoption of BPM is higher in North America and starting to rise steadily in other regions such as continental Europe and Asia with the realization of cost savings and process efficiencies. Many of the largest global insurance firms are spending over \$10 million annually on BPM⁹.

Major BPM initiatives for property and casualty insurance involve front office, underwriting, and claims processes. Two key areas where life insurers are beginning to use advanced BPM capabilities are underwriting and new business processes.

3.2. BPM in the Front Office

Business process management enhances front office operations by enabling an insurer to handle agents more effectively, optimize multiple distribution channels, and enhance the probability of renewals and new business.

Exhibit 2: Benefits of BPM in the Front Office

Benefit	Impact	BPM Helps Insurers...
More effective agency/ carrier management	Top and bottom line	<ul style="list-style-type: none"> ■ Introduce various insurance options to customers ■ Monitor performance of distribution channels ■ Update agent compensation management
Multi-distribution channel optimization	Top and bottom line	<ul style="list-style-type: none"> ■ Adopt new channels faster and integrate them with existing channels ■ Introduce and quickly update the rules for a particular channel ■ Support a smoother flow of data and information between channels
Enhanced new business/renewal management	Top line	<ul style="list-style-type: none"> ■ Automatically initiate policy renewals ■ Support enhanced prospect identification and automatic quote generation in combination with business intelligence and analytic tools

Source: Capgemini Analysis, 2011

⁹ BPMtrends.com

3.3. BPM in Underwriting

Business process management can lead to significant bottom-line and top-line impact for an insurance firm by enabling increased transparency for underwriting and policy administration and effectively and efficiently aligning underwriting with the company's goals.

Exhibit 3: Benefits of BPM in Underwriting		
Benefit	Impact	BPM Helps Insurers...
Decreased operating expense	Bottom line	<ul style="list-style-type: none"> ▪ Achieve rule-driven decision-making and straight-through processing ▪ Support consistency and better performance metrics (business activity monitoring) ▪ Enhance business user experiences leading to better productivity and job satisfaction ▪ Improve compliance to regulations
Decreased IT expense	Bottom line	<ul style="list-style-type: none"> ▪ Build configurable underwriting systems to lower maintenance and support costs
Increased premium income	Top line	<ul style="list-style-type: none"> ▪ Enhance ability to issue policies, leading to enhanced customer and agent experiences

Source: Capgemini Analysis, 2011

3.4. BPM in Claims

Implementing business process management for claims can provide an effective way to process claims and manage risks. BPM can reduce overall claims processing time and better manage third parties.

Exhibit 4: Benefits of BPM in Claims		
Benefit	Impact	BPM Helps Insurers...
Enhanced claims handling effectiveness	Bottom line	<ul style="list-style-type: none"> ▪ Automate claims routing to claims adjustor ▪ Enhance claims adjustor experience through better work assignments ▪ Improve compliance to regulations
Reduced claims processing time	Bottom line	<ul style="list-style-type: none"> ▪ Enable straight-through processing for intimation of claims by customers/agents
Effective risk management	Bottom line	<ul style="list-style-type: none"> ▪ Effectively manage fraud in co-ordination with predictive analysis (business intelligence) ▪ Support a smoother flow of data and information across various departments within and outside claims
Improved third party management	Top and bottom line	<ul style="list-style-type: none"> ▪ Seamlessly integrate real-time with third party processes and systems such as vendors and regulatory authorities
Increased customer acquisition and retention	Top line	<ul style="list-style-type: none"> ▪ Enhance service for customers across multiple touch points: prompt and equitable claims settlement and flexible pay out options ▪ Effectively manage data and support better decision making to improve underwriting risks ▪ Create claims experience-based competitive pricing of risks leading to enhanced customer acquisition

Source: Capgemini Analysis, 2011

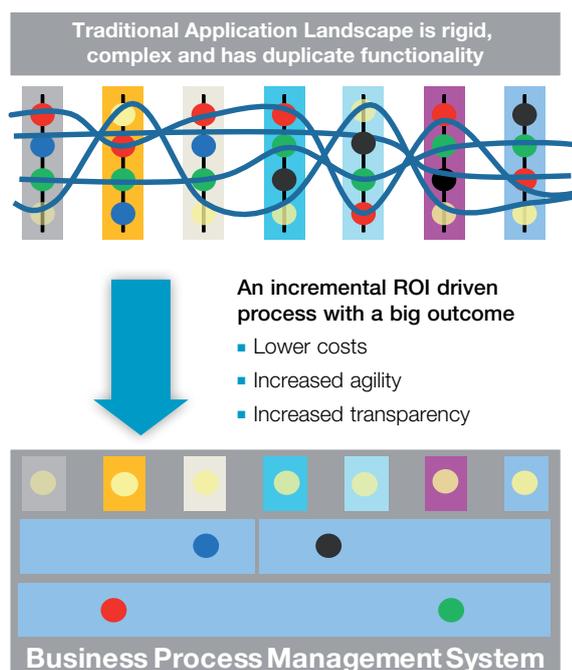
4 The Controlled Migration Approach to BPM for Insurers

Traditionally, BPM has faced challenges in the insurance industry as insurers have been hesitant to implement BPM over critical core processes such as underwriting and claims. While implementing BPM, insurers are always faced with the difficult decision of choosing a “big bang” approach versus an incremental approach that uses stages. There has been limited clarity on the use of BPM in insurance and a perception of high cost.

BPM implementations require a coordinated and committed team of cross-functional experts to integrate new systems with existing ones. Because of these challenges, many insurers restrict the scope of their BPM implementations. To mitigate the risk of a large scale BPM implementation effort, a ‘controlled migration’ methodology might be helpful.

Controlled migration is a step-by-step process-managed approach to help insurers achieve a successful application landscape for the future. A traditional application landscape is rigid, complex, and has duplicate functionality. Through an incremental ROI-driven process, insurers can gain lower costs, increased agility, and increased transparency in core systems.

Exhibit 5: Controlled Migration of Current Insurance Systems to BPM-Enabled Systems



Source: Capgemini Analysis, 2011

Controlled migration can help insurers:

- Take small steps to migrate from legacy platforms to SOA-enabled, BPM insurance systems, thereby reducing resistance to change.
- Effectively integrate with other systems to keep the insurance systems up and running during the implementation to avoid any system downtime leading to loss of business.
- Optimize the use of existing assets rather than completely discarding them.
- Ensure optimal use of resource time through a phased approach to implementation.
- Manage and re-confirm expectations at each step of the controlled migration process.

Controlled migration of current systems to SOA-enabled BPM systems can minimize the risk faced during system migrations and reduces overall cost for an insurer.

IN PRACTICE: Rapidly achieving business value using an iterative approach to claims transformation

Our client, a leading North American insurer, wanted to reduce operational expenses and improve the customer experience for the first notice of loss (FNOL) process. The legacy systems handling the functionality lacked flexibility and agility to respond to changing business needs. In addition, the insurer was dependent on manual interventions which relied heavily on the knowledge of experienced employees. With acquisitions planned as part of the company's growth strategy, the insurer wanted to plan for future integrations to the system.

Capgemini is delivering an agnostic FNOL front end across lines of business and business units in a staged manner using PegaRULES Process Commander® BPMS technology. The system is on track to achieve operational savings that are 2x the original plan.

5 Conclusion

In the intensely competitive insurance market, differentiation through innovative technologies like BPM is an important and effective way to maintain or increase market share and profitability. Insurers can achieve numerous qualitative and quantitative advantages across the value chain by implementing BPM.

The 'Controlled Migration' approach helps insurers' lower risks and overcome the challenges of a BPM implementation for core processes so insurers can reap the benefits of a successful business process management.

About the Author

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