

Leveraging Rating Data as a Strategic Core Enterprise Asset



Historical Approach to Rating

- Rating was viewed as a function of an application
- Same insurance products had to be replicated into different applications (policy, web, actuarial, etc)
- Most rating was hard-coded requiring expensive IT resources.
- Resulting in:
 - Slower time to market
 - Inconsistent results between applications
 - System limitations restrict what can be implemented
 - Premium leakage due to incorrect understanding of what programs were actually doing



Celent reported...

- 63% of carriers have 2 or more rating engines in production.
- Average time to implement new rating functionality:
 - Personal Lines 64% greater than 5 weeks
 - Commercial Lines 81% greater than 5 weeks
- 47% of carriers still rely mostly or fully on IT resources to make changes

Source: Carrier panel, Celent rating engine trend report, 2006



The Rating Paradigm Has Shifted

- Carriers are viewing their rating as a strategic core asset
- Externalize rating - End user applications become consumers of the rating asset
- Build the rating asset once and leverage it across the organization
- Empower business experts to manage the rating asset to further streamline the time to market
- IT focus on more strategic technical initiatives



3 Case Studies

- Liberty Agency Markets
- The Harford Mutual Insurance Companies
- Shelter Insurance



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**Liberty
Mutual®**

Liberty Mutual Agency Markets



Starting State

- Business
 - Personal Lines - Profitably grow
- Technology - Proprietary legacy rating engine, heavily integrated into mainframe
 - Rating “Long Pole” in development life cycle
 - Complex – “hard coded”, no skilled developer knowledge
 - Difficult to test
 - Potential different rating result from web and mainframe environments
 - High cost to maintain



Key Business and Technical Drivers

- Business Drivers
 - Build sophisticated pricing model and engine establishing accurate pricing to differentiate and outperform competitors
 - Provide ability to introduce new products and new rates matching or exceeding industry “Speed to Market”
 - Provide Agents with increased “Ease of Doing Business” functionality
- Technical Drivers
 - Reduce “Total Cost of Ownership” – new product delivery and maintenance
 - Remove IT as the “Constraint” - complete business ownership for rate changes
 - Leverage rating & risk technology across Liberty Mutual Agency Markets



Rating Initiative

- Business
 - Leverage current Personal IQ Agency Markets web-based interface application for quoting and policy issuance system
 - New pricing model
 - Enhanced Rating & Risk Program - 38 States for 5 Line of Business (Auto, Home, Umbrella, Dwelling Fire and Watercraft)
 - Phase 1 – Ohio and Texas Live
 - Roll out remaining states and LOB's over next 18 months
- Technology
 - All components share a standard ACORD XML based message model
 - De-coupled legacy rating from new business and batch processing
 - Ratabase - Product Builder in the hands of the business



Outcome

- Results
 - More than tripled the # of price points to over 130
 - Quickly & consistently generate quotes
 - Competitive in price
 - Appropriate to customers specific risk characteristics
 - Introduced new policyholder discounts and products
 - Business implements rates with little IT involvement
 - Ability to leverage technology and design for all states, saving time and reducing cost



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Assistant Vice President, IT



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Starting State

- System Architecture – 2006
 - Policy Admin System written in-house (1994-2000)
 - VB6 / SQL Server
 - No web-based products for agents
 - Rating engines
 - Written in-house
 - Database tables
 - Multiple calls
 - Embedded business rules
 - Maintenance (rate changes) by IT
 - Rating disks



Key Business and Technical Drivers

- Business Drivers
 - Strategic initiative to improve agent relationships and “ease of doing business”
 - Provide Internet-based tools for agents
 - Inquiry tools
 - Access to forms, policies, and financials
 - Quick quotes
 - Online policy submissions
 - Grow premium not staff
 - Eliminate rating disks



Key Business and Technical Drivers

- Technology Drivers
 - SOA for Rating
 - Same rating engine for Policy Admin and online rating (RapidWrite)
 - Uncouple rating processes from Policy Admin
 - Improve maintenance
 - Migrate to XML, .NET
 - Provide forecasting tool - future



Rating Initiative

- Rating Conversion Project
 - Analysis of existing rating processes
 - Elicited third party consultants
 - Major work effort to upgrade
 - Replacement decision
 - Investigation
 - Buy vs. Build
 - Speed to market for RapidWrite
 - Vendor POCs
 - Vendor selection
 - Design
 - VB.NET
 - XML based rating service
 - ACORD Standard
 - Construction
 - Shared development with CGI
 - Parallel testing - 100% with in-force policies
 - Phase 1: Business Owners and Workers Comp
 - Phase 2: Commercial Auto



Outcome

- Rating truly SOA
- Same service called by RapidWrite and Policy Admin
- Incorporated many underwriting rules
- Conversions more efficient with each line
- Rate changes through Product Builder more accurate and in half the time
- Reliability of rating service
- Increase in policy submissions with RapidWrite deployment
- Future
 - Additional Lines of Business on Ratabase
 - Forecasting
 - Maintenance to the Business



Patrick Steuber

Actuarial Systems Administrator



Starting State

- Rating from an Actuarial Department Perspective
 - Mainframe Cobol (NB, PC, RB)
 - DOS Rating (Agent NB, PC)
- Rate Change Procedure
 - Actuarial submitted System Modification Request (SMR)
 - Actuarial supplied some electronic rate files
 - IS made changes, tested and implemented...?
 - Rating discrepancies were seldom communicated



Key Business and Technical Drivers

- Provide agent support through a new Internet based Agency System (eCommerce)
- Implement new Agency System beginning with new business quoting and an electronic application
 - Package or Homegrown?
 - Required a new rating engine – Package or Homegrown?
- The BIG decision
 - House rating in IS or with the Business Partners?
 - Initially, Ratabase was viewed as a temporary solution maintained within Actuarial



Rating Initiative

- Scope of the project
 - Personal Auto New Business ONLY in all 13 states
 - Rating only
 - No edits
 - No derivations
 - Must match mainframe rating to the penny!
- Design
 - CGI designed and built our first two states at their site from our rating requirements and manuals
 - Actuarial modified to match mainframe and then built the remaining states from those two



Outcome

- Ratabase Scope Today
 - No longer a temporary solution
 - New Business, Policy Change, Renewals
 - Expanded to 12 lines of business
 - Expanded to 14 states
 - Leveraged the rating asset to provide Customer Access (Quoting on the Web)
 - Territory derivations
 - Commissions...?



Outcome

- Staffing - Rating Group
 - 2 individuals in Actuarial – rates, rules, testing, issues
 - 4 individuals in IS – interface
- Speed to Market
 - Tomorrow
- Flexibility
 - Can we...YES!
- Issue Resolution
 - Ratabase...We can fix it!



Questions

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