Developing iTOM
(Target Operating Model for insurance)

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Content

• Target Operating Model (TOM) Defined - ITG’s perspective
• Developing and implementing TOM
• TOM and IT – Real Case Examples
• Q&A
TOM Defined
TOM Defined - ITG’s perspective

- Target Operating Model (TOM) defines following views of the company:
  - Processes,
  - Organizational structures
  - Human capabilities
  - Supporting information technology

that have to be created to optimize:

- Corporate/internal operations
- Service delivery

Value Stream = ALL steps from customer contact to customer fulfillment
Why do we need TOM

- TOM allows to understand how operational processes create value and how to redesign operating models to optimize all elements of the business
  - To decide what to change and what to keep the way it is.
  - To communicate in a comprehensible way to interested parties.
  - To serve as a roadmap to manage the change process.
TOM Defined - ITG’s perspective

• TOM is driven by strategic objectives, e.g.
  – *market-share growth*,
  – *increased profitability*,
  – *cost reductions*,
  – *level of customer service*

• Follows corporate strategy and in particular sales and marketing strategy/plan
## Products by Segment

<table>
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<th>Products / Segment</th>
<th>Individual</th>
<th>SME</th>
<th>Large Commercial</th>
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- **Main Product**
- **Supplementary Product**
- **Occasional Product**
- **Product not needed**
# Channel/Product/Segment: Individual

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<tr>
<th>Product Importance</th>
<th>Products</th>
<th>Internet Sales</th>
<th>MOT’s</th>
<th>Agents (Ind.)</th>
<th>Brokers</th>
<th>Assoc.</th>
<th>Leasing Cos.</th>
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Developing and implementing TOM
Designing TOM

• Follows business and sales and marketing strategy/plan
• Decision guided by desired business outcomes
• Resolves process issues:
  – Separates complex processes (e.g. underwriting) from standardized/simple processes (e.g. small payouts)
  – Separates long-running processes from short running processes
• How it works:
  – Measure performance of current model
  – Every process analyzed in detail
  – Organizational structures analyzed and defined in detail
  – IT Architecture and solutions optimizes business process model
  – Measurements of future model prepared
Developing TOM - ITG’s Approach

ITG applies repetitive approach to TOM development, usually 2-3 iterations.

Refine the TOM with every iteration, and building on possible scenarios and assumptions and desired outcomes is the key.
Developing TOM - ITG’s Approach

Design Framework - Constraints

Industry models:
- From generic (e.g. IBM IAA, LOMA models) to company specific

Design principles:
- decision rights
- acceptable policies

External factors:
- market conditions
- customer needs

Available business/system components:
- organizational structures
- IT systems
Capacity for Change

Key conclusions:
1. ABC can utilize 3 levers:
   - Money
   - Availability (number) of resources
   - Physical IT assets/infrastructure
2. ABC needs to further develop the culture and maturity to execute the change.
3. Work processes need significant modification to meet the strategic objectives
Implementing TOM
Implementation Approach

- TOM implementations usually span many and complex business processes, organizational units and geographies.
- Due to various constraints (day-to-day operations, staffing, budget, capacity for change, availability of resources) and risk management reasons usually can not be implemented in one step but require multiple phases/release.

**PROs**
- Reduces time to market
- Mitigates risk by gradual transition between old and new “world”
- Better distribution of work and resource load
- Acquire organizational learning in each phase

**CONs**
- Dependencies between phases have big impact on timelines, budget and schedule
- Complex dependencies can exist between various phases or individual projects
- Estimating can not be done by simply summing up individual project estimates

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Managing Change

- Implementing new TOM introduced significant amount of change at various levels
- Understanding and applying adequate change management techniques is key
- Individuals (employees) and groups (organizational units) both exhibit change resistance
- Structured techniques need to be in place to deal with change
  - e.g. Align-Respond-Transition
- Need to be complemented with a strong communication plan
- Has to be linked to developing high performance culture as early as possible
- COMMUNICATE! COMMUNICATE! COMMUNICATE!
Implementation Governance – Summary

• President/CEO/COO fully engaged and supporting the effort

• Strong and experienced project leadership can not be substituted with anything else
  – Very competent project team(s)
  – Appropriate project structure
  – Discipline, always referring back to TOM and continuously updating TOM

• Clarity around new roles and responsibilities

• Performance transparency:
  – Continuous measurement of progress against set up targets linked to reward system

• Staying flexible e.g. capturing unforeseen synergies

• Communicating relentlessly

• Train, train, train…
TOM and IT
TOM and IT

• Well designed TOM drives both short-term and longer-term IT initiatives:
  – Enterprise Architecture
  – IT project portfolio plan
  – IT Governance
  – Core Insurance Systems selection/upgrade
  – Shared Services Centers
  – Cost reduction initiatives

• Note: All illustrating examples are based on the real client’s experience.
<table>
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<tr>
<th>IT Project Portfolio Timeline</th>
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<td><strong>Consolidated Customer Data</strong></td>
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<td>Create timely consolidated customer data</td>
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<td>Update tools and software</td>
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<td>Create browser views on consolidated customer CRM system project</td>
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<td><strong>Point of sales/service portals</strong></td>
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<td>Phase I: Branch Portals</td>
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<td>Phase II: Agent and Broker Portal</td>
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<td>Phase III: Call Center to Contact Center</td>
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<td><strong>Change non-Life Policy Administration System (PAS)</strong></td>
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<td>Analyze ability to wrap INSURER Product engine Reporting engine INSURER replacement RFI and analysis</td>
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<td><strong>Consolidate Life systems</strong></td>
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<td>Project to convert GUR to KANGUR Phase out GURIK Plan for go-forward systems other than Group</td>
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<td><strong>Complete CORPO</strong></td>
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<td>Implement CORPO phase I (3 LOBs) Implement remainder of non-motor CORPO Extend CORPO to motor products</td>
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<tr>
<td><strong>Integration framework</strong></td>
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<tr>
<td>Develop inventory of missing interfaces (i.e. where double entry is required) and prioritize for development with business users Project for top 3 priority interfaces and extensions</td>
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<tr>
<td><strong>Consolidate claims</strong></td>
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<tr>
<td>Phase I: Project for simple Life claims first Phase I: Consistent and repeatable interface method for SLS Phase II: More complex life claims and BPM workflow</td>
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<tr>
<td><strong>Consolidate financials</strong></td>
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<tr>
<td>Phase I: Consolidate FKX (2 steps) Phase II: Unify IT procedures; merge Life and Non-Life</td>
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IT Governance

- **IT Steering committee**
  - CEO, CIO and Management Board Members responsible for IT
  - In ABC’s case Management Board can likely act as IT Steering Committee due to small size
  - Tasked with most strategic direction and decisions
  - Does not get involved with tactical and operational decisions

- **KBT**
  - Key business/IT alignment vehicle
  - Members: BU Operational Leaders, Directors/RMs, Life, Non-Life and Corporate Systems
  - Works of the positive tension between IT capabilities (throughput) and business needs as well as between priorities
  - Final IT decision authority on tactical and operational issues
  - Provides input in all strategic decision-making

- **Relationship Manager**
  - Key link from IT to business units
  - Relationship with one or more business units
  - Represents business unit interests within IT, and IT interests to business
TOM drives Core Systems selection

- How much is enough for software selection?
- In practice, most often three levels of “depth” in TOM
  - Level 1: High level functional view of the entire scope of business
    - All major processes, key steps and information flows
    - All major organizational units
    - Key IT systems and functions
  - Level 2 - Extended process and organizational model
    - Relationship between processes and corresponding information flows
    - Key application components/functions and their relationship to processes
    - Decision rights
    - Detailed organizational structure and roles and responsibilities
    - Human capability requirements
  - Level 3 - Detailed process and organizational model
    - Detailed functional specifications
    - Data flows
    - Data structures
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Open-ended selection process
TOM drives Core Systems selection

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**Key Best Practices:**

- Assign the right person with the right skills to complete the right task at the right time.
- Communicate large losses immediately to the appropriate management personnel.
- Use statistical data to automate the reserve process as much as possible.
- Reserve for LAE, as well as loss payout, throughout the process.
- Allow people to share files by providing multiple access at the same time.
- Electronically connect all parties involved in the claims processing, including account teams, claim adjusters, consultants, suppliers, vendors, etc.
- Develop and use business rules to integrate and drive claims processing.
TOM defines Shared Service Centers function

Example: Notice of Loss

Key Best Practices:
- Allow the client to submit the first notification of loss any way that they want to
- Capture loss information electronically in digital format at the source and handle it only once
- Capture and manage supporting documentation electronically
- Capture the loss as an event and record multiple claims against the event
TOM leads to cost reduction – Claims example

- **Starting point**
  - Market leader in CEE. More than 2.5 million claims per annum (more than 1 million motor insurance). More than 3,500 employees in claims division throughout the country. No standardised claims procedures – every branch did as it wished. Very limited IT support for claims handling.

- **Actions taken**
  - Procedures manuals prepared for all types of claims
  - Non-massive claims (rare cases) taken out for specialised, centrally managed unit
  - Efficiency standards for all parts of the claims process established.
  - Some parts of the claims settlement process centralised

- **Results**
  - Comprehensive IT system for claims developed (special in-house IT task force was established for the purpose)
  - Remote (telephone and internet) communication with clients initiated
  - Paperless information flow established
  - Due to the scale of the venture, it took more than three years to finalise the project.
  - Average claims settlement time reduced by more than 30% after 1st year of implementation
  - 15% of claims local units closed
  - Workforce in claims division throughout the country reduced by more than 700 FTE
Who is ITG?
Why ITG?

• Exclusive focus on the insurance industry with key strengths in front and back-office operations
  – Objectivity and independence with no other affiliations or agendas

• 50+ industry experts with minimum 15-20 years of hands-on experience in managing insurance operations (CEO, CFO, COO, VP, Director level from Underwriting, Claims, Operations, Sales, Marketing, Actuarial, Product Development etc…)

• Experience in both developing and developed marketplaces with particular focus on transferring know-how between developed and developing marketplaces

• Not only deliver a Report but help implement and share risk with client

• Library of best industry practices in insurance developed through hands-on work with clients (business processes, organizational structures, IT solutions, products and distribution channels etc…) to speed up development and implementation
Why ITG - Our Experts’ Experience

- Allianz
- Allstate
- AXA Insurance
- Aviva
- ABN Amro
- Bank of Montreal
- Banco de Mexico
- CDP Capital
- CIBC
- Cigna
- Credit Union
- Dominion of Canada
- DST/Corfax
- Dunav Insurance Company
- Farm Bureau Insurance of Michigan
- Gerling
- ING
- Ingostrakh LMT
- Kemper Insurance
- Link 4 SA
- Manulife
- Motorist Insurance Company
- MI Group
- Pilot Insurance
- PZU
- RBC Insurance
- Royal Bank of Canada
- Royal Sun Alliance
- Samopomoc-HDI
- Saudi National Bank
- Secura
- Standard Life
- TU Samopomoc S.A.
- Warta S.A.
- West Bend Mutual Insurance
- Winterthur
- Zurich Financial Services
Q&A

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