



Carrier Automation Trends for 2010:

Carriers Plan to Shore Up Existing Operations to Combat Instability

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Insurance Business and Automation Trends for 2010: Carriers Plan to Shore Up Existing Operations to Combat Instability

Executive Summary

According to Fitch Ratings, while the property and casualty market experienced some recovery in 2009 over 2008, the overall outlook largely remains “negative” in 2010 for personal and commercial lines of business. Factors including economic and financial market uncertainty, inadequate premium rate levels and heightening competitive pressures as insurers work to retain existing business, all contribute to projected sluggish profitability for the property and casualty industry¹. Other industry analysts concur and have indicated that a prolonged weakness in the underwriting cycle, the potential ramifications of healthcare reform and pending regulatory changes will also impact how carriers plan to invest in technology this year. To learn more about how insurance carriers are addressing to these conditions, IVANS conducted a survey aimed at understanding insurance carriers’ business objectives for 2010 and their associated technology priorities. Three key findings emerged as a result.

Staying ahead of the competition and maintaining market share have made **customer retention and lifecycle management** a business imperative for protecting carrier revenue. Many insurance organizations are looking to grow organically through existing lines of business and want to push automation further along into the customer management lifecycle, so they can respond more quickly to the needs and opportunities of customers.

The evolving regulatory environment has also forced carriers to evaluate how well-equipped they are to respond to **new and proposed changes in federal and state legislation**. Increased regulation will cost insurers money and time, so they are reviewing current compliance methods and new ways to enable compliance in the fastest, most efficient manner possible.

Finally, with the industry firmly entrenched in a soft market cycle, **operating more efficiently** is no longer an option. Insurance carriers need to examine their technology infrastructure and go beyond traditional ways of cost cutting (i.e., downsizing) to focus on transforming their business. Eliminating redundancies through automation, streamlining insurance transactions through a standardized workflow, and lowering costs by reducing the load on a carrier’s helpdesk will enable carriers to operate more efficiently and achieve greater, sustainable growth.

¹ Fitch Ratings: Review and Outlook 2009–2010, U.S. Property/Casualty Insurance, 12/8/09, www.fitchratings.com

Carriers Want to Strengthen Relationships with Customers at All Phases of the Customer Lifecycle

Carriers are investing resources to better understand and respond to the needs of their customers. Insurers want to be the first to attract new customers, while also generating greater leverage from the customer relationships they have already forged. This view is echoed in IVANS 2010 Carrier Survey, which revealed that 74% of insurers are investing in tools that help them better respond to customers. Carriers said they plan to spend more in 2010 on web portals and websites (69% of respondents), policy processing and administration systems (58%), and agency-carrier interface solutions (53%) to succeed at their business objectives and improve customer retention. All of these technologies offer greater accessibility to a wider variety of data that carriers and agents can use in growing their business.

The desire to maintain strong customer and agent relationships is also fueling triple-digit growth in claims download. IVANS industry reports indicate that claims download transaction volume grew over 200% in 2009 and, according to IVANS Winter 2009 Agent Survey, 80% of agents want to take advantage of claims download. By automating the distribution of property and casualty claims information between insurance carriers and agents, both are able to respond more quickly to customer needs, thereby increasing customer satisfaction. Claims download is also delivering operational benefits by reducing agent calls to carriers' claims departments and making claims information more accessible for other uses.

Insurers also recognize the need to upgrade their technology infrastructure to support these new business applications. Sixty-seven percent of survey respondents cited "legacy infrastructure" as a barrier to achieving their business objectives. Fortunately, there are many newer network options available to support high-speed data transport, remote access to applications and disaster recovery requirements of the larger, more complex data volumes these applications generate.

Carriers know that customers will reward insurance companies that are responsive to their needs. As a result, carriers who push automation throughout the customer management lifecycle and make transformational investments in technology will greatly enhance their ability to be competitive.

Carriers are Preparing for Increased Regulatory Scrutiny at Both the State and Federal Levels

Industry regulations, both new and proposed, are creating compliance issues for carriers. Federal legislation in other industries is generating new costs and requirements for the property and casualty community, while the state regulatory environment continues to evolve. Insurance organizations will need to examine how these changes are going to affect the way they do business and then re-evaluate their current compliance methods to ensure they have the best solution for the least resources. Carriers are aware of these issues, and 81% percent of those surveyed by IVANS plan to invest in tools to help them cope with state and federal compliance.

For example, Section 111 of the Medicare, Medicaid and SCHIP Extension Act requires that insurers report claims to the Centers for Medicare and Medicaid Services (CMS) that involve a Medicare beneficiary as the injured party for which there is a settlement, judgment, award or other payment. Virtually any insurance carrier that provides coverage used to pay for medical claims will be affected. Most do not have the internal resources or the expertise required to build a solution from scratch to support the regulation. To combat risk of potential fines from non-compliance and to ensure the requirements are carried out with minimum disruption to their existing infrastructure, carriers are adopting turn-key reporting solutions that can be integrated into their existing workflow and incorporate full auditing and data conversion capabilities.

As the uninsured driver rate continues to increase, states are also using their regulatory power to limit risk. The Insurance Research Council reported that one in six U.S. drivers may be driving uninsured this year. Twenty-nine states require carriers to report liability insurance coverage for their insureds electronically, and more states are adopting real-time, online insurance verification to address mandates aimed at reducing fraud and the number of uninsured motorists. Online insurance verification is a web service endorsed by the Insurance Industry Committee on Motor Vehicle Administration (IICMVA) as the preferred alternative to batch reporting because it eliminates error corrections, saving time and money. Over time, these types of real-time, reporting requirements are expected to increase, so carriers will need compliance solutions that are flexible enough to pull data from several systems and translate it to multiple regulatory agencies.

The Continued Soft Market and Economic Slowdown Have Heightened the Need to Do More with Less

Faced with ongoing economic instability and a continuation of a soft market for 2010, 93% of carriers surveyed by IVANS are focusing their attention on improving operational efficiency. Adoption of technologies that streamline transactions between insurance companies and agents will continue to grow in 2010, as carriers look for ways to maintain profitability in a sluggish economy.

Automation technologies, such as real-time and download, significantly reduce the administrative burden on carriers and agents, save time and streamline workflows by generating information more quickly and accurately. According to GetRealTime.org, use of real-time tools is saving agents and brokers a considerable amount of time each day. Almost half of those using real-time (47%) are saving 30 minutes per day, (45% in personal lines and 50% in commercial). An additional 28% (35% in personal lines, 19% in commercial) are saving 31 minutes to one hour per employee each day.²

Download continues to generate benefits for the industry, and carriers are now sending millions of download transactions per month using IVANS communications platform. Commercial lines download volume, for example, has increased 78% over the past twelve months, and the number of agents accepting this transaction through IVANS Download solution has increased by 69%. IVANS 2010 Carrier Survey suggests this trend will continue, with 85% of respondents who sell commercial lines indicating that they plan to implement commercial lines download within the next two years.

While 41% of insurers who participated in IVANS 2010 Carrier Survey are expecting to increase their technology budget in 2010, they must also find ways around barriers in order to successfully execute. Competing priorities (91% of respondents), lack of staff (78%) and the need to update their technology infrastructure (67%) were the top three challenges cited to achieving business objectives. Insurance organizations will increasingly engage the technology expertise and resources of those outside their organizations to help fill in these gaps.

² Get RealTime.org Survey: Most Agents Using Real Time Functionality, 2/9/09, www.getrealttime.org

Conclusion

Most insurance companies have a technology plan, but the greatest challenge in 2010 will be in the execution. Carriers are working with finite resources and want to ensure the projects they invest in will have the greatest impact, both in the short term and the long term. Insurance organizations know that building stronger relationships with customers and agents is a solid bet for sustaining their business, so the 2010 agenda is heavily weighted towards technology that helps them and their agents respond more quickly and knowledgeably to customer demands.

While the debate over the roles of state versus federal oversight continues, there is little doubt that carriers will be subject to greater regulatory scrutiny in the coming years. Insurance organizations will need to anticipate the ramifications of these regulations and plan for the technological resources required for compliance. Those carriers that can quickly adjust to changing regulations using cost-effective methods will have a large advantage over those that do not.

Lastly, to remain competitive in this challenging economic climate, insurers must reduce operating expenses that hinder efficiency. A more efficient business means a more profitable business, and one that has the resources to invest in initiatives that offer the greatest return on investment. Carriers that can shore up their operations in 2010 and mitigate the negative impact of the current economic downturn will be well-positioned to maintain market share as the economy recovers and builds sustainable growth over many years to come.

Survey Methodology

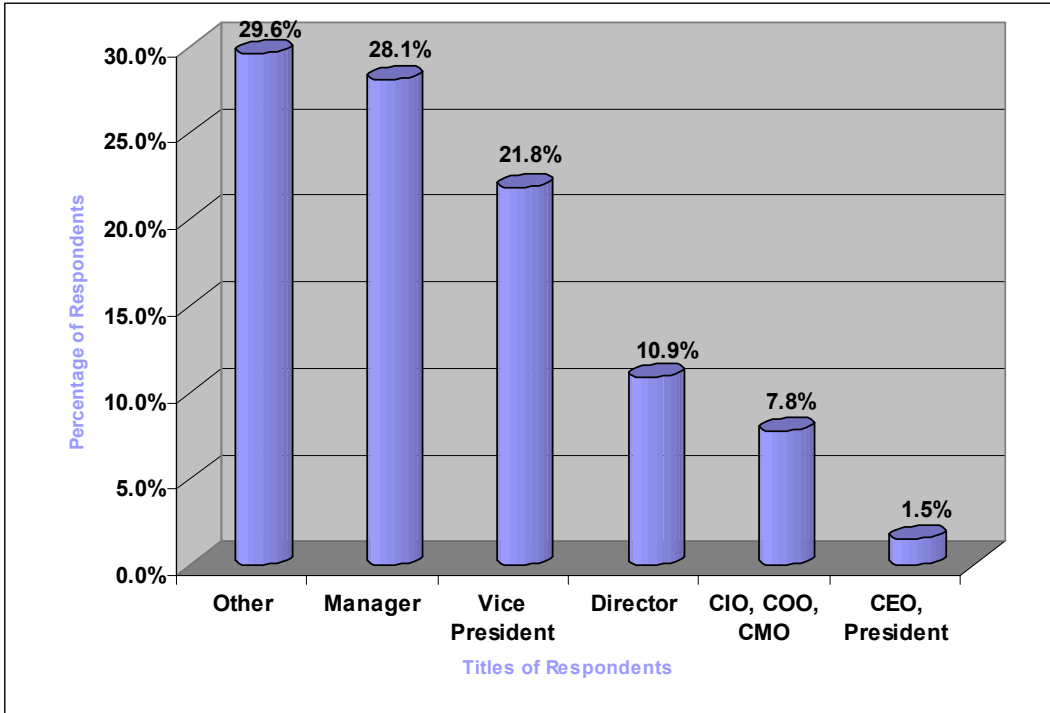
From December 29, 2009 - January 15, 2010, IVANS, Inc. conducted a web-based survey to which 68 insurance carriers throughout the United States responded. The participants represented a wide range of roles, including Managers (28%), Vice President (22%), Directors (11%), C-level executives (9%) and “Other” (30%), such as Assistant Vice President, Business Analyst, Enterprise Architect and Agency Interface Specialist. Respondents also came from carriers who write a variety of businesses: Personal Lines (43% of respondents), Commercial Lines (36%), Specialty Lines (13%) or Other (7%), such as Workers Compensation, Personal and Commercial Bonds, Surety/Life and Life/Health.

Participation in this study was voluntary and respondents had the option to withdraw at any point. All responses were kept confidential, and all research data is reported in aggregate form.

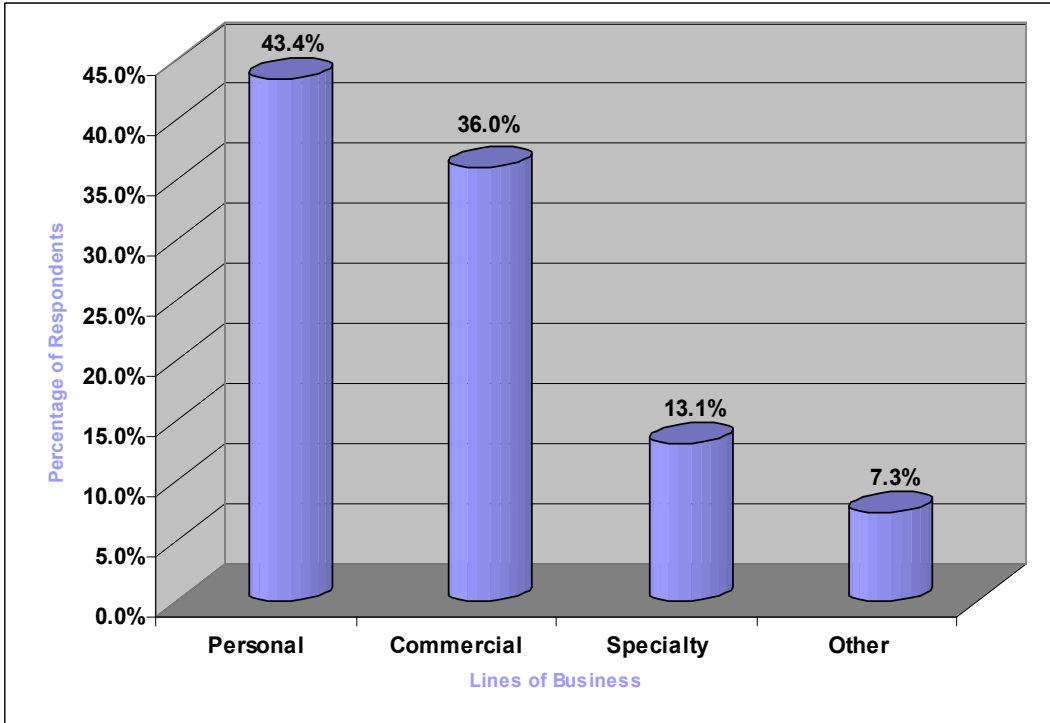
About IVANS

IVANS, Inc. provides the healthcare and property/casualty insurance industries with fully managed network, electronic data interchange (EDI) and agency-company interface solutions to help solve complex business issues. Headquartered in Stamford, Connecticut, IVANS serves over 700 insurance and healthcare organizations, more than 30,000 independent agents and 135,000 healthcare providers. With over 25 years of experience successfully managing networks, the company also offers its clients relentless customer service, reliable and accessible technical helpdesk support and expert enablement. IVANS, which was formed by 21 insurance companies, also has offices in Tampa, Fla. and Cincinnati, Ohio. For more information, visit www.ivans.com

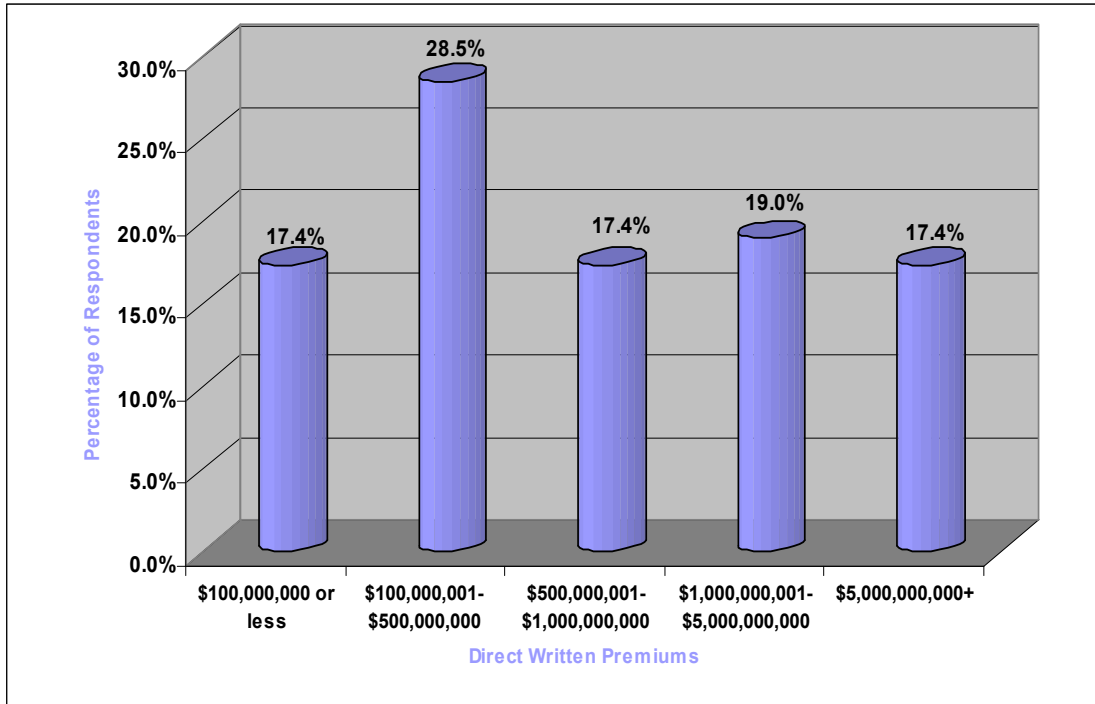
Almost Half of Respondents Are Either Managers or Vice Presidents



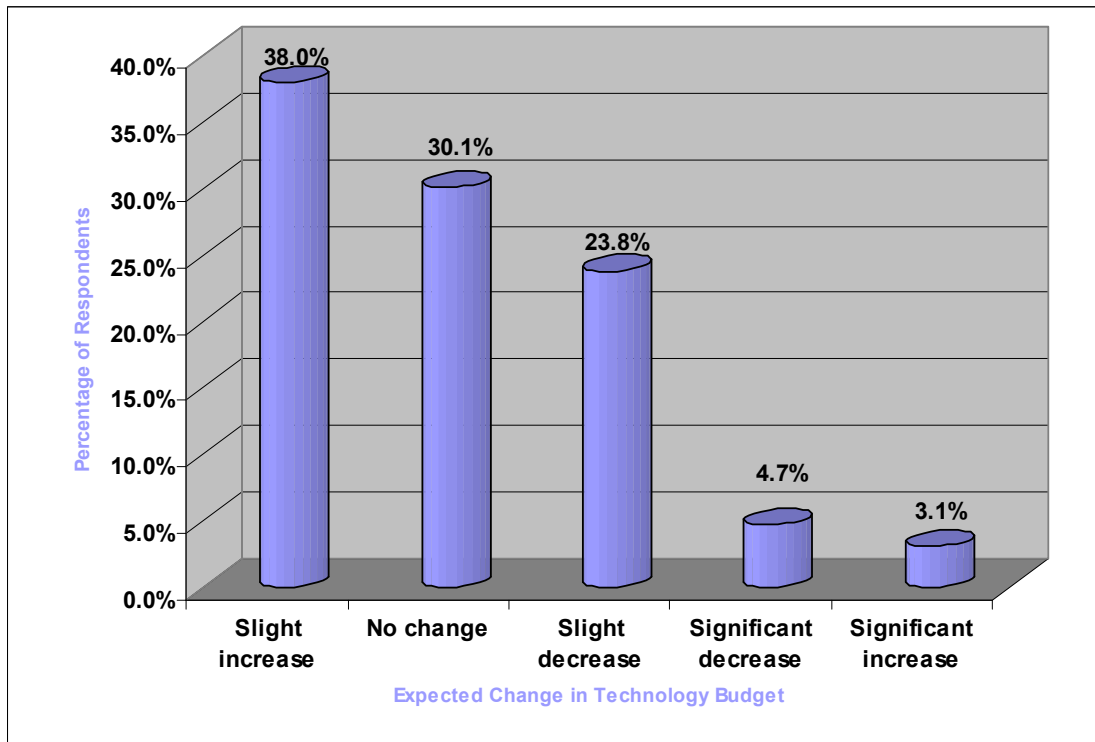
79% of Respondents Write Personal and/or Commercial Lines of Business



36% of Respondents Have Direct Written Premiums of More than \$1 Billion



41% of Respondents Are Expecting to Increase Their Technology Budget for 2010



**82% of Respondents Are Building Up Existing Lines of Business
Versus Diversification (42%)**

Business Objectives	Not a Focus	Little Focus	Moderate Focus	Major Focus	Tremendous Focus
Developing new products and services within existing lines of business	8.0%	9.6%	29.0%	29.0%	24.1%
Diversifying product portfolio across other lines of business	32.7%	26.2%	21.3%	11.4%	8.1%
Increasing operational efficiency through technology / automation	1.6%	4.8%	16.1%	43.5%	33.8%
Investing in tools that help you better understand and respond to customer	8.0%	17.7%	33.8%	25.8%	14.5%
Coping with new proposed industry regulations on a state	3.2%	16.1%	51.6%	17.7%	11.2%

Top Three Barriers to Achieving Business Objectives: Competing Priorities (91% of Respondents), Lack of Staff (78%) and Updating Technology Infrastructure (67%)

Potential Barriers	Not Much of a Barrier	Small Barrier	Somewhat of a Barrier	Large Barrier	Major Barrier
Lack of resources / staff to implement	9.6%	11.2%	16.1%	33.8%	29.0%
Constantly changing industry regulations / standards	14.5%	32.2%	35.4%	11.2%	6.4%
Current economic conditions	16.1%	19.3%	32.2%	27.4%	4.8%
Competing priorities	3.2%	6.4%	19.3%	40.3%	30.6%
Getting agents to participate in your initiatives	20.9%	25.8%	33.8%	16.1%	3.2%
Need to update technology infrastructure (e.g., add network, update legacy systems)	11.4%	21.3%	14.7%	34.4%	18.0%

69% of Respondents Plan to Invest More in Website / Web Portals, 58% in Policy Processing / Administration Systems and 53% in Agency-Carrier Interface

Types of Technology Investments	More	Less	No Change
Business intelligence	32.0%	5.6%	62.2%
Policy processing / administration	57.6%	5.7%	36.5%
Website / web portals	69.2%	3.8%	26.9%
Agency-carrier interface	52.8%	3.7%	43.3%
Risk management	15.6%	5.8%	78.4%
Product lifecycle management	21.1%	9.6%	69.2%

Top Areas of Investment Either Already Implemented or Plan to Implement Within Next Two Years Are Personal Lines, Commercial Lines and Real-Time Upload

Types of Interface Technologies	Already Implemented	In 2010	In 1-2 Years	In 2 + Years	No Current Plans
Real-time upload	48.1%	12.9%	9.2%	12.9%	16.6%
Commercial lines download	32.0%	13.2%	18.8%	3.7%	32.0%*
Claims download	17.3%	17.3%	25.0%	9.6%	30.7%
Personal lines download	75.4%	1.8%	3.7%	1.8%	16.9%**
Alerts, activities and notes	22.6%	7.5%	20.7%	7.5%	41.5%
Policy document download	22.2%	9.2%	18.5%	7.4%	42.5%

*Numbers take into account all respondents, regardless of the lines of business they operate. When responses are filtered to include only those carriers who have commercial lines business, 85% of respondents plan to have implemented commercial lines download within next two years.

**Numbers take into account all respondents, regardless of the lines of business they operate. When responses are filtered to include only those carriers who have personal lines business, 91% of respondents plan to have implemented personal lines download within next two years.

Top Three Compelling Reasons for Getting Agents to Adopt New Technologies Are Time Agents Save, Agents Able to Respond More Quickly and Reduces Paper

Reasons for Agent Adopting New Technology	Least Compelling	A Little Compelling	Compelling	Very Compelling	Most Compelling
The time the agents will save	7.2%	3.6%	21.8%	29.0%	38.1%
Other agents are doing it / usage is increasing industry-wide	11.1%	11.1%	31.4%	40.7%	5.5%
Reduces the need for paper policies	10.9%	9.0%	38.1%	23.6%	18.1%
Enables agents to respond more quickly to customers	5.4%	7.2%	21.8%	34.5%	30.9%
Competitive differentiator for agents	9.0%	12.7%	29.0%	36.3%	12.7%

46% of Respondents Are Going to Increase Their Outsourcing, Either Through Technology Development or Ongoing Technology Management

Approaches Used for Implementing Technology	Increase	Decrease	Stay the Same
Develop technology in-house	41.8%	12.7%	45.4%
Outsource technology development	31.4%	14.8%	53.7%
Outsource ongoing technology management	14.5%	16.3%	69.0%
Leverage a software-as-a-service model	25.4%	5.4%	69.0%

Only 16% of Respondents Are Using Social Networking as a Communication Tool in Business Today

