

## **Insurance Product Performance Blueprint – Web Module Script**

### **FIRST 4-5 SLIDES**

IBM Cognos financial services performance management solutions are designed to help financial institutions align corporate objectives with operating plans so they can operate more profitably and efficiently.

IBM Cognos Planning coordinates plans, budgets and forecasts across your institution so everyone accountable for business results has visibility into how their role supports the company's strategic initiatives and financial goals.

IBM Cognos 8 Business Intelligence provides world-class reporting and analysis, allowing you to track your progress against forecasts and plans and access critical information with ease.

In the latest breakthrough from the IBM Cognos Innovation Center for Performance Management, IBM Cognos Planning and IBM Cognos 8 Business Intelligence are combined into Performance Blueprints that will accelerate your implementation of performance management capabilities.

The Performance Blueprints are pre-defined data, process and policy models designed to help you improve two key processes: planning, budgeting and forecasting; and reporting and analysis. A Blueprint pre-populates your plan with common operational drivers and business structures - dramatically reducing the time required to deploy a new performance management process.

The Performance Blueprints were developed by the IBM Cognos Innovation Center for Performance Management in collaboration with some of our most successful customers and industry thought leaders. They are designed to help customers adopt best practices in performance management – plans that are driver-based, developed with the participation of all the right stakeholders, and updated as frequently as needed to capture the most current view of the business...coupled with the robust dashboards, reporting and analysis capabilities needed to remain informed about your business operations.

Blueprints help you reduce time and risk in a new performance management implementation; and so accelerate the time-to-results.

Best of all, these Blueprints are free to existing customers. Customers can apply for free membership to the Innovation Center, and then download the models right from our Web site. It's that easy.

If you're not yet a customer but are considering IBM Cognos Planning, the blueprints will deliver value right out of the box.

The “Performance Blueprints” cover many key financial and operational processes, across multiple industries. Today’s demonstration will focus on the **Insurance Product Performance Blueprint**, which is intended for use by Insurance business segment management, finance executives, and ‘product, brand, and marketing’ executives to improve insurance profitability.

The Insurance Product Performance Blueprint includes two primary components:  
IBM Cognos Planning and IBM Cognos 8 Business Intelligence

With the Insurance Product Performance Blueprint we will demonstrate how insurance business segment, product and finance executives can:

- Create forecasts and plans at the product type, product and brand levels;
- Analyze profitability of the business segment and products through a series of dashboards and reports; and
- Leverage the extensive domain experience that comes pre-packaged in the Blueprint, based on the co-development of the Blueprint with SunCorp, one of Australia’s largest financial institutions.

With that, I’d like welcome you to this short demonstration on how the Cognos Insurance Product Performance Blueprint can help you move to best practices in your business segment and product management.

In this demonstration we will check on the key metrics of one of our products, plan an initiative to improve the product’s profitability, and track the effect of the initiative on the Profit and Loss statement.

We login to the environment as an insurance executive who has insight to all products within the organization. If we were to login as a particular product manager we would only be able to see data for the product we are responsible for.

Rather than sifting through mountains of reports and data from different systems Cognos provides the user with a simplified user interface to allow them to dig deeper into how the organization is performing.

In the upper left hand corner I’m proactively pushed an alert notifying me that acquisition costs are projected to be 5.5 million dollars in January of '09. That information also comes out in the chart below where I can see the spike in acquisition costs relative to Gross Written Premium. I’ll use IBM Cognos business intelligence to dig a bit further into how we are performing and why.

In this P&L report I can see how we are performing across prior year, current year, and next year. By drilling into the current year, I see a monthly breakout of how we are performing. We’re 6 months into fiscal year '09 and at first glance it looks like Gross Written Premiums are steadily decreasing, but by comparing actuals to budget I see that we’re actually ahead of plan.

Launching the Gross Written Premium Dashboard I see that same information presented to me in a more visual representation. Again I see that for fiscal '09, my GWP appears to be performing poorly against actuals, but that's only a six month running total compared to my budget, which is looking at the yearly number as well as my forecast. When I drill down I see that our actuals, in red, are actually outperforming our budget and that seasonality is being maintained. I'll increase my budget and forecast to reflect this trend.

Now that we have a good understanding of our Gross Written Premium, I may want to look at how we're going to project our growth over time. Looking ahead to fiscal year '09 and '10 I can see that for all products in my current time period we're at a negative 8% underlying growth, but somewhere around July of '09 we should break even and peak at about an 8% growth level at the end of this fiscal year. I may choose to focus on a particular product to see if I can find some outliers. Auto Products follows the same general trend with about 9% growth whereas if I switch to Worker's Compensation our growth percentage is only around 5%.

Now that we have a handle on our current forecast to underlying growth, we may switch over to this analysis quadrant. IBM Cognos has a number of different ways to provide end user analysis and ad hoc capabilities to business users, all without requiring deep technical or IT expertise. This particular dashboard provides a more guided analysis. Users have the ability to swap things like chart types and widget dimensions, providing them a guided way to analyze the data.

We wrap up our Business Intelligence analysis by looking at a triangulation analysis, which is typically executed by the actuaries within an insurance organization, requiring deep statistical expertise and technical expertise. But with IBM Cognos software this capability is built right into the business intelligence environment. I can see how our loss development triangles are performing across a number of different parameters.

At this point I can export this content in several formats or download it for further use, but the takeaway is that it is easy to use, it is built right into the system and the user doesn't have to be a statistician to interact.

Having utilized Cognos business intelligence to develop a number of insights that we weren't previously aware of it's time to launch Contributor and make some changes.

Contributor opens to a workflow screen showing the hierarchy of the product and product groups within our application. This workflow can easily be modified to reflect the products and rollups of the user's organization. Product runoffs can also be set as part of the workflow.

I begin as the party responsible for the Liability product line. In the Business Intelligence analysis I noticed that the revenue in our Current Forecast seemed lower than it should be based upon how actuals were performing compared to forecast so far this year. Specifically I had noted that the forecasted Average Premiums were trending downward.

Upon launching the blueprint the first tab we will look at is Revenue. The default for the Current Forecast is Scenario 1. Within the Revenue tab you can view Actuals going back a number of years, the Budget for the current fiscal year, or work on any one of three possible Revenue scenarios. You can then choose any of the three scenarios as the one to drive the rest of your model.

Let's look at how we arrive at our Gross Written Premium by exploring scenario 1. Our Gross Written Premium is made up of New Business and Renewal Business. Renewal Business is made up of Renewals, Renewal Renewals (those that have renewed at least once), and Cancellations. A number of key metrics and measures have their trends calculated elsewhere in the model. The default is to use the 'Same Period Last Year' for all trended items. As you can see, those items that are trended have a drop down box to allow the user to select a different trend method. The user needs only to select it to override the default choice.

I had noticed in the BI that the average premium for our renewal business was trending lower in our forecast than was being reflected in the actuals, so I'll select Last Period for my trend on the Average Premium – Renewal and increase that amount by 2 % going forward and let the model calculate the changes. I could enter an adjustment dollar amount or percentage. Every trended item can be adjusted this way. You can change the base if desired and then adjust that base by a number or percentage. In this case a dollar amount change, but I could also be changing the number of policies, or a lapse rate.

For my Average Premium – Renewal endorsements I am going to set the premium at \$1200.00 by selecting a zero trend and entering the \$1200.00 going forward.

After entering these changes the model re-calculates the Earned premiums and Reinsurance adjustments based upon rates we had previously set. A number of Key Performance Indicators are calculated and displayed at appropriate times throughout the model.

Switching to our next tab – Current Accident Year Claims, we see Claims being calculated based upon our forecasted Revenue numbers. Since I made no changes to New Business, the 'Incurred Dollar – New' did not change. I did make changes to Renewal Revenue and so there I do see changes. There are two methods to choose from when calculating new claims, 'Size and Frequency' or 'Gross Loss Ratio'. Gross Loss Ratio is the default. As in the Revenue tab, there are Trended items that can be adjusted by the user. Claims are also calculated by type – these types as well as the trend types can be setup to reflect the needs of the client.

Based upon the Revenue and Accident Year Claims, the Incurred Claims are calculated, the Reserves, and all Balance Sheet Movements.

The Expense tab deals with Commissions, Differed Acquisition Costs and other adjustments and charges.

All this information is pulled together into a Profit and Loss Statement. The P&L has an area to accommodate Managed Funds as well as Joint Ventures, and allows users to view their data not only in their local currency but also in the corporate standard. The P&L is also designed to give the user corporate feedback in the form of Targets with calculated variances, which allows users to get immediate feedback and make adjustments to their plan as necessary.

A Balance Sheet is also an integral part of this solution, as well as Triangulation tables, necessary to properly calculate losses and reserves. A more detailed discussion of the model and the handling of Claim Payments can be found in the application brief.

In summary, you've just seen how the Insurance Product Performance blueprint can be used to:

- > Remain abreast of the latest operational metrics and business performance;
- > Plan actions at either the product type, product and brand level, and
- > Track the impact of those actions as they cascade across the product's financial forecast, including impacts on revenue, expenses, claims, and ultimately profitability.

The Insurance Product Performance Blueprint accelerates the realization of Performance Management in Financial Services – by providing tools, disciplines and industry best practices that help institutions synchronize and coordinate financial and operational planning processes, and by ensuring that they remain informed with world-class reporting and analysis. With these capabilities, the insurer can quickly see the impact of changes in operational plans on corporate financial projections. At the same time, departments and functions can intelligently reallocate resources to support corporate objectives.

The Blueprint also helps communicate corporate guidelines during the decision workflow right across the organization, down to all those contributing to the plan. Finally, it delivers value out of the box. Our customers can quickly adopt best practices in performance management, with reduced risk and faster results.

For more information on our performance management solutions for Financial Services, visit the Financial Services Resource Center at [www.ibm.com/cognos/financial services](http://www.ibm.com/cognos/financial%20services). More information on other Performance Blueprints is available at [www.ibm.com/cognos/innovationcenter](http://www.ibm.com/cognos/innovationcenter). If you are an existing customer, we encourage you to apply for free membership to the Innovation Center. You will then be able to download the Blueprints for use with your IBM Cognos Planning application.

If you are not yet a customer, you'll find materials that describe the value and use of the blueprint models. And you'll find articles by industry experts and Web seminars with more detail on using the IBM Cognos Performance Blueprints.

Thank you.