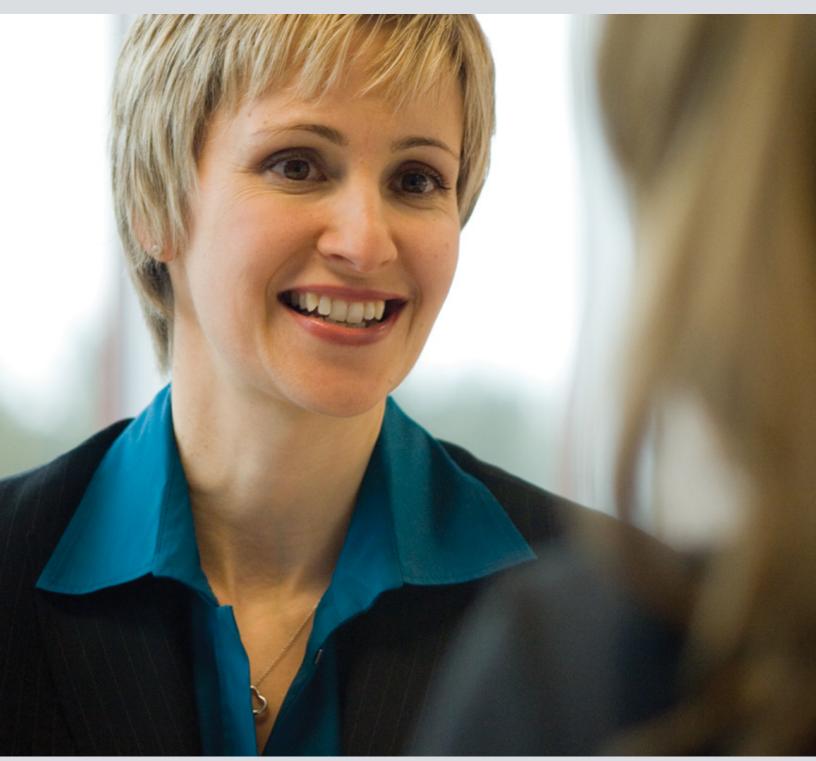


Insurance Product Profitability Blueprint





Information Management

Introduction

To meet the continuing demand for competitively priced offerings to satisfy customer demand, attract new business and retain existing clients while returning profits for the organization, the IBM Cognos[®] Innovation Center for Performance Management has extended the already popular *IBM Cognos Product Performance Planning Blueprint* to include more robust business intelligence and refined enterprise financial planning capabilities.

This *Blueprint* was developed with the insight gained from the original partner sponsor Suncorp, Australia. The revised *Blueprint* adds customer input and takes advantage of the most recent business intelligence and planning functionality in the IBM Cognos 8 suite. For example, business intelligence for loss development analysis is incorporated into the product pricing and planning scenario processes. The result is simpler, yet powerful planning, along with more robust dashboard, reporting and analysis capabilities that meet the growing demands of the insurance marketplace.

Ultimately, this *Blueprint* offers a logical approach to assessing insurance product performance in the context of corporate goals and objectives and budget and forecast constraints. This approach also addresses loss development forecasts and offers multi-scenario-based analyses to maximize product design, pricing, and marketing.

Current challenges

Insurers often struggle to get the right data to make decisions in a timely manner. Too frequently, insurance executives do not trust the data that they are given or it is not presented in a user-friendly way, nor is it structured to answer the key business questions. Often, business decision-makers must rely on time-consuming and disjointed query processes that include:

- Ordering data from IT
- Waiting for the jobs to be run
- Importing that data into a desktop tool

And what happens? They go through this process only to learn that the limited insight provided requires another query and on and on.

In addition, insurers have rarely been able to forecast multiple business scenarios accurately to determine the most profitable course of action. Strategic planning and forecasting has typically been an annual event. It is often based on prior year results plus some percentage growth rather than being based on business drivers. It also is likely to done in isolation by each product line or business segment without considering the overall impact.

Finally, despite the tremendous value of actuarial insight afforded the planning and product design process, what is actually used for a cost basis is often out of date and inflexible when it is applied to the exercise of product planning and pricing.

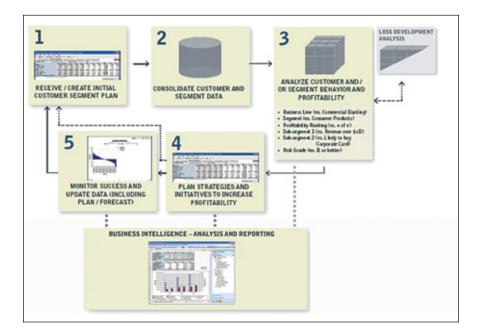
Meeting the challenges

By combining the power of the IBM Cognos 8 Planning and the IBM Cognos 8 Business Intelligence platforms, effective budgets, forecasts and plans are completely linked with business intelligence reporting and analytics, including loss development analyses. This affords business decision makers timely, reliable, flexible insight into the entire financial model to make the best product pricing decisions and ultimately measure and monitor the performance of the company against plans.

Driving product and portfolio profitability with a coordinated, efficient process can be a reality. The first step is to consolidate data; storing all relevant transactional, product, claim and expense information in an enterprise warehouse is one such consolidation approach. Users of IBM Cognos 8 software know that one of its strengths is aggregating information from numerous desperate sources.

The next step is applying the appropriate reporting and analysis tools to the task of fully understanding dimensions as much as possible, including business segments, product lines and individual products.

After these various levels are understood more completely, the insurer can confidently assess the financial impact of proceeding with "business as usual" versus implementing one or more initiatives into specific products, product lines or business segments to improve profitability. Finally, the insurer is able to monitor the success of its plans and initiatives and feed what it has learned back into the process, creating a closed-loop cycle for continual performance improvement.



Introducing the IBM Cognos Insurance Product Profitability Blueprint

The *IBM Cognos Insurance Product Profitability Blueprint* enables insurers to create profit and loss statements and balance sheets at the business segment level and by product line. Business analysts, product managers and finance executives can use the solution to report on and analyze profitability, to create P&Ls and balance sheets and to plan initiatives to improve business segment results.

The Blueprint contains two primary components:

- Dashboard, reporting and analysis using IBM Cognos 8 Business Intelligence
- Planning and forecasting using IBM Cognos 8 Planning

With these components, users in the insurance enterprise can perform more effectively as follows:

- Finance executives are empowered to plan for all business segments and products efficiently and consistently–with all contributor plans from all products rolling up into a single, consolidated plan. No more Microsoft® Excel® version control issues!
- Actuaries can exercise and apply their loss development analyses directly to the corporate plans and affect the cost basis for product pricing modifications and new product development.

"The IBM Cognos Insurance Product Profitability Blueprint offers a strong performance management platform that enables insurers to optimise its product mix and continuously drive profitability through both historical reporting and analysis and long-term initiative planning and forecasting."

– John Herrmann, Manger of Group Budgeting and Forecasting, Suncorp

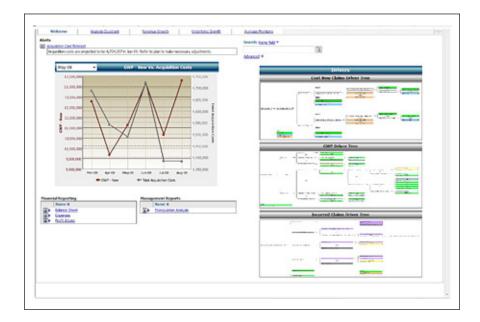
This praise was for the first version of the Blueprint. With this latest edition, users gain even greater insight into product profitability with its expanded approach to assessing insurance product performance against corporate objectives and budget constraints. • Business segment executives, product managers and analysts can evaluate changing market conditions and consider multiple scenarios that impact the business on a rolling, immediate basis—taking into account business segment and product profitability and enabling their company to act in a coordinated fashion.

Using IBM Cognos 8 Planning and IBM Cognos 8 Business Intelligence, the *Blueprint* provides insurers with business segment and product line information for analysis to determine targets, to plan initiatives to drive increased profits for specific targets and to manage a P&L and balance sheet at the desired level in the product hierarchy. The following descriptions are based on the order of the basic workflow:

- Report and analyze business segment and product lines.
- Plan revenue, expenses, claims and initiatives.
- Manage the P&L and balance sheet.

Report and analyze business segment and product lines

The *IBM Cognos Insurance Product Profitability Blueprint* provides a hierarchy of dashboards and reporting developed to guide a user through deeper and deeper levels of the business segment and product line profitability. The first level in the hierarchy provides a view of the entire the business segment (such as Commercial Insurance or Personal Insurance) and product line so the user can understand performance measures such as revenue and profitability at a glance.



From the dashboard, the user can choose to drill down into logical areas to get more information, including:

- Analysis Quadrant. In this area, the user can filter, drill and alter chart layouts dynamically for five key metrics and three dimensions. In addition to being able to change four different charts individually, the user can also set global filters that apply to all four chart views in the quadrant.
- Loss Triangulation Report. This report provides the user with a graphical view of the loss triangulation analysis being calculated in the planning application. Users have the flexibility to change the current time period and filter on one or more products.
- Revenue Growth. This area includes reports that provide more information about Gross Written Premium trends comparing actuals and forecasts versus budgets, as well as products across time periods.
- The Profit and Loss statement for the business segment and product line. Users can examine actuals versus budgets for each time period, including drilldown from fiscal year to month level. In addition, a user can choose between one or more products with a filter prompt.

The overall objective of this *Blueprint* is to enable insurers to *affect* the profit and loss statement in a positive way. To do so, insurers need to have a solid understanding of the "business as usual" forecast, and then evaluate potential initiatives to discover the impact on the profit and loss statement.

Plan revenue, claims, expenses and balance sheet movements

For revenue planning, a revenue forecast is created with IBM Cognos 8 Planning that includes both new and renewal premiums and takes exposure, cancellations, lapses and similar items into consideration. The revenue forecast can occur at any level, including business segment and product line and a user can plan up to three different scenarios and then elect the scenario that best meets the user's goals. Historical key measures are analyzed that can then be used as drivers to calculate revenue. The earned premium calculation and daily phasing are also considered in the model.

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Cancellation Safe New		1.0%		141%	1.075	1.10%	1.075	0.00%	1.00%	0.88%	0.87%	100%	8.85%	1.09%	1.075				
Canadiation Rade - New Or Auto		1.375	0.07%	0.075	6.00%	6.02%	1.00%	1.075	0.075	0.075	0.00%	1.00%	1.00%		6.00%				
Cancellation Sale - New (%- Add)		0.00%	0.00%	6.80%	6.00%	1.0075	0.0075	0.00%	0.00%	0.00%	0.000	0.000			0.00%				
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For claims planning, Current Accident Year Claims, Prior Accident Year Claims and Incurred Claims are all tabs in the model that provide vital claims information for the profit and loss statement. Claims can be calculated by choosing one of two methods; *Size and Frequency or Loss Ratio*. These tabs incorporate concepts such as gross and net claims, unallocated loss adjustment expenses, incurred but not reported, movements in reserves, recoveries and discount unwind. In addition, significant ratios are again provided, such as gross and net loss ratios.

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Oth - henowal	3,985,381	2,965,978	3,045,345	2,422,794	2,147,336	1.831.485	2335.400	2172408	3,532,632	2,993,099	3,367,875	4,657,285	34385.047	3,796,287	3,435,804	3.621,805	3,080,65	
Presult - Retend	2,110,238	2,200,731	2,386,932	1,073,629	8,791,423	8,500,598	1,504,798	2,030,000	2.000,215	1,991,157	2,253,925	3,268,276	25,459,510	2592,052	2,820,200	2,552,625	4,400,0	
Gross Carred Premum	3,103,166	3,100,000	2,195,927	3,253,048	3,156,314	3,262,417	LADA	3,244,425	7.0047075	4,034,538	4,003,968	4,475,183	44,519,309	4,343,993	4,271,471	4,208,000	4,145,09	
Proportional Ite Del	15,506	15,467	\$5,980	16,318	15,710	35,812	18,736	34,232	25,545	26,125	28,128	23,176	212,517	21,726	21,157	21,000	34,72	
Tool-proper Noral Tu-Sha	15,577	31,416	\$1,880	16,773	15,343	11,778	34,815	18,765	23,088	11,346	28,798	38,957	231,779	23,255	25,184	10,912	38,34	
Parcel Selection Barlines	18,577	20,400	21,880	16,773	15,263	11,078	36,885	28,762	23,048	28,346	28,798	28,957	231,779	23,255	25,184	23,923	20,34	
Earned Promum - New	746,855	808,139	841,407	905,718	911,423	947,818	1,812,818	887,508	1,070,848	3,003,185	994,508	998,779	11,156,312	973,580	996,853	988,313	8,015,22	
Garnet/Franker - Ramanual	4,014,001	3,101,114	4,151,520	2,114,208	2,246,890	2,234,498	1717,104	1,346,841	3,949,364	3,009,354	3,005,410	3,436,124	31,368,996	3,373,414	3,241,658	3,210,799	3,130,04	
Net Daniel Prenium	3,028,938	3,055,848	3,126,388	3,395,417	3,096,732	3,316,872	3,440,711	3,100,011	1,899,862	3,846,377	3,941,443	4,126,057	-	4,253,509	4,141,963	4,110,201	4,064,42	
ACCOUNTS																		
Gross Incurred Claims	3,111,539	3,366,948	2,454,118	2,533,409	2,482,495	2,541,825	3,112,877	3,784,825	3,484,199	3,395,889	3,474,985	4,151,045	35,384,434	3,463,484	3,424,523	3,463,837	3,467,62	
Total Reinsurance Recoveries	10,201	\$4,349	\$1,585	18,718	38,417	10,525	12,338	54,748	\$2,195	\$3,273	83,286	54,794	\$46,506	14,351	84,829	13,800	13,47	
Propertional flat-Inst Recoveries	10,045	14,143	\$6,367	\$5,402	10,245	30,408	12,179	38,544	82,964	\$3,000	\$3,678	54,454	138,100	54,858	\$3,778	\$3,458	13,47	
Proportional for the Recoveries Nate	45.00%	45.00%	45.00%	65.00%	45.00%	45.88%	45.80%	85.00%	45.00%	65.00%	45.00%	45.00%	45.00%	45.00%	45.00%	65.00%	85.00*	
Facultative Re-Drs Recoveries	58	103	99	84	76	59	80	99	115	5.7	304	145	1,159	104	1.04	115		
Paculative Redra Recoveres Rate	8.50%	8.50%	0.58%	8.50%	8.50%	0.58%	8.50%	8.50%	8.58%	0.58%	8.50%	8.58%	8.50%	8.50%	0.58%	8.50%	8.501	
Non-proportional Re-los Recoveries	-	103		84	76	99	80		115	8.7	304	145	1,199	114	124	115	10	
Non-propertional for line flags-series lists	8.50%	6.50%	0.50%	4.50%	4.50%	0.50%	0.50%	0.50%	0.50%	0.50%	8.50%	6.50%	6.50%	6.50%	0.50%	1.50%	6.505	
***** CLAPIS ADDISTORYS *****																		
Net Incurred Claims (excluding U.Al)*	3,301,258	2,356,351	2,441,533	2,321,648	2,472,678	2,530,497	1.015.438	1,771,284	3,474,964	3386.404	3,461,499	4.144,763	31.164.119	3451.134	3,421,493	3,449,458	3,453,39	
hert Dumo Pad	14134	28,494	41.333	88,254	\$33,314	179.498	312,447	351,896	391,013	436.067	454,953	383,883	1.052,841	544,305	346,730	-	646,78	
Howement is 05 Claims Reserve	3,067,123	3,116,416	2,343,405	2,213,158	2,126,147	2,137,890	2525,628	2,201,175	3,813,542	3,869,391	2,906,133	3,363,963	24,471,817	2,642,387	2,327,062	2,573,453	2,355,49	
Provensent in 2018																		
Planement in ULAI Reserve		211,642	215,301	221,216	212,615	213,799	252,563	226,517	200,355	284,359	298,413	336,296	2738.419	264,211	257,786	257,345	255,15	
Clama Provanov References																		
raliation Street																		
Red Incorrect Claims (Including ULAC)	3,101,254	4,354,551	2,445,533	2,523,648	2,472,678	2,520,497	3,895,638	3,773,284	3,474,964	3,346,606	3,061,099	4,144,363	35,164,119	3,451,134	3,485,493	3,448,658	3,453,39	
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Other Cleans Piccaury																		
Gross Cost of New Claims	3,306,419	2,131,888	2,311,799	2,374,422	2,322,415	2,345,335	27ILIM	2,412,416	3,045,044	1,134,299	3,113,304	3,423,443	31,386,338	3,986,579	2,858,280	2,055,057	2,953,15	
Not Cast of New Claims	3,096,138	3,125,499	2,201,254	2,263,652	2,212,998	2.254.809	2738.855	2,412,734	3.471.849	3.121,966	3,388,219	3,687,938	31,241,859	3,964,388	2,924,253	2,946,338	2,039,48	
Obcourt/Denied	5,130	15,410	21,933	36,775	42,445	32,879	804,220	154,413	142,754	176.681	110,857	201,127	1.171.798	226,715	201.534	246,295	258,79	
Gross Loss Ratio	-	15.54%	11.85%	-		79.8%	82.27%	83,78%	-	-	81.70%	-	82.17%	10.00%	13.36%	-	-	
Bell Loss Rate Cauladay (RAC)	10.100	11100	10.100	10.000	mam.	-	-	#1.4 PM	-	81.20%	-	14.075	-	mam	-	-	81.187	

The Expenses tab provides the cost portion of the profit and loss statement not covered in claims. It captures commissions, differed acquisition costs and other management expenses. The end result is total operating expenses. In addition, the tab provides a number of key ratios, including total acquisition costs, net commission and total expense ratios.

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CONTRACTOR DATA CONTRACTOR																
Gross Written Promium		1.00.4%	3,940,585	4.617,618	3,008,107	4,03,845	5.74L307	46,355,884	4,651,602	5,426,722	4,334,497	1.245,995	3,378,796	2,367,636	3,336,141	4,246,77
QUF-Iwo		84,58	1,00,000	1.011,755	83,107	952,005	LIPLIN	IL MARK	944,715	1,180,919	963,002	\$4,975	914,205	SHLM2	81,015	1, 10, 21
OVP -Renewal		3,305,400	2,578,408	1,512,602	3,993,098	3,147,815	4412,000	34,505,847	3,05,007	3,439,804	10100	3,000,01%	2,416,518	LECTE	2,003,005	2,453,80
Grow Denied Premium		APR.IN	1,249,923	3,005,012	404,00	1,025,000	4,435,100	42,529,389	4,345,905	4,239,475	4,300,000	1,145,800	3,406,176	1,812,885	4,144,812	3,00,34
Grow Barried Premain - New		1,002,048	897,300	1.004.840	LINE	994,510	998,779	11.134.345	875,580	996,813	984,343	1.816,225	963,754	1.117.40	1.014.000	SIL IS
Grow Barried Promium - Namoual		3,725,804	1,346,825	1.048.004	3,009,312	1.121.411	3,496,304	JUNE PR	3,371,414	3,242,438	3,210,796	3.186,667	2,622,454	2,701,100	3, 153, 589	2,84,10
Net Samed Presiden		3,630,995	3,800,000	1,000,000	3,646,327	1,041,442	4,134,007	41,411,411	4,213,500	4,143,963	4,110,228	4,864,405	3,875,918	1.HUML	4,056,146	3,463,13
ACQUESITION COSTS																
Total Acquisition Costs		(804,279)	317,804	311,510	346,736	304,730	346,615	2,415,475	319,037	332,019	315,806	315,566	312,737	274,294	315,268	333,27
Bed Commissions		G+L000	334,817	335,319	291,985	345,377	381.894	3.853.875	331,454	346,736	339,588	354,438	252,763	227,584	206,034	353.444
Committeion - New		104/08	312,082	178,636	134.855	834,854	142,337	LANALAS	\$16,709	101.001	548,548	104.408	14LA30	99,309	132,672	212.174
Commission - New Rafe		15.52%	15.52%	15.52%	15.52%	15.52%	15.52%	15.42%	15.57%	15.52%	15.52%	15.57%	85.52%	15.57%	85.53%	85.579
Commission - Netw Rate (or Art)		6.07%	0.37%	0.07%	0.00%	0.07%	0.00%		0.075	6.07%	0.88%	6.30%	6.07%	0.85%	0.00%	0.004
Commission - New Kater (N. Arh)		6.00%	0.00%	6.00%	0.00%	6.00%	6.00%		6.07%	6.00%	6.80%	6.00%	6.00%	6.07%	6.00%	6.00%
Commission - New Rule (Thund)	Same Period Previous Year	81.57%	15.57%	15.17%	IL SPA	15.12%	15.52%		15.57%	15.57%	15.10%	11.17%	11-10%	15.57%	11.10%	11-30%
Commission - Renewal		123,262	\$35,729	145,435	112,875	842,298	242,496	LALLAS	-	282,545	111.154	862,308	128.347	95,309	136.631	151.400
Commission - Renewal Rate		5.38%	1.38%	5.28%	5.28%	5.28%	5.28%	1.24%	5.28%	5.00%	5.26%	5.28%	5.28%	8.26%	5.28%	5.28%
Commission - Remarkal Name (Jr. Art)		6.07%	0.30%	0.07%	0.00%	0.075	4.00%		0.0%	0.00%	0.8%	0.30%	6.0%	0.075	0.00%	0.00%
Commission - Renewal Rate (% Adj)		6.00%	0.00%	6.00%	0.00%	8.80%	6.00%		0.07%	0.00%	0.80%	6.00%	6.00%	6.87%	6.00%	6.00%
Commission - Annen-al Rate Drand	Same Period Previous Year	1.37%	1.3%	1.3%	1.3%	5.3%	1.37%		1.3%	1.37%	1.3%	1.38%	1.2%	5.3%	1.27%	1.20%
Networks Bullenge Commission ?			4							0	0	0	0			
SADA-Demissions		48,877	HORE	21,832	0,000	1,875	46,540	3/3,8/2	10,000	25,129	30,340	0.80	COLUMN D	(*1.18)	(24,825)	34,40
Bet-Other Acquisition Coats		(343,394)	(16,312)	(23,489)	6,758	(6,458)	(45,376)	(458,902)	02,100	(24,317)	(11,982)	1,547	19,953	41,812	27,236	(14.328)
Other Acquisitor Costs		0		0		0	0		0	0	0	0	0	. 0	0	1
DADA - Other Appulation Davis		ML.TH	M.212	21,408	(8,798)	6.658	45,378	490,982	12,318	31,327	11,800	0.865	CR,VED	(47,012)	(27,230)	9,13
UK7 Adustment				0					0	0	0	0	0	0	. 0	
Louis & Owyes										0	0	0	0			1
Management Expenses				0			0		0	0	0	0	0		0	1
Total Operating Expenses		(804,279)	317,804	311,510	306,736	306,730	340,415	2,465,475	318,137	332,019	315,808	315,946	3111,737	174,394	315,268	333,27
U.4.*		0	0	0		0	0		0	0	0	0	0	0	0	1
PETRICS																
Total Acquisition Expense Ratio		DO NO.	11.17%	7.97%	1.07%	7.82%	TAPE	5,78%	2.50%	8.07%	1.00%	117%	8.10%	1.37%	1.00%	8.009
Bet Commission Ratio		04.35%)	10.54%	8.59%	7.80%	8.00%	8.52%	7.34%	2,79%	8.72%	-	3.24%	7.67%	6.01%	7.07%	9.809
Other Acquisition Paperse Salis		(15.36%)	0838960	0140%0	0.17%	01.17%	0.05%3	(1.14%)	0.39%3	12.49%3	(8.38%)	0.04%	0.53%	1.01%	0.10%	(8.42%)

Manage the P&L and balance sheet

The Profit and Loss Statement is the recipient of revenue, expenses, claims and balance sheet planning. Insurers can use this tab in the *Blueprint* to compare the financial consequences of the multiple scenarios quickly and easily, resulting in a decision on the best course of action.

By virtue of the consolidation above, it is now possible to calculate such items as the net underwriting result, the investment income on technical reserves and gross margin.

The profit and loss statement also includes a number of key performance indicators (KPIs), so that the business segment or product manager can track important pieces of information.

The *Blueprint* also provides a balance sheet that provides a forecast of key items, such as reserves, ratios and margins. The user can assess which course of action is best.

Conclusion

Driving insurance product and overall profitability with a coordinated, efficient process can be a reality. The *IBM Cognos Insurance Product Profitability Blueprint* offers a logical approach to assessing insurance product performance in the context of corporate goals and objectives with budget and forecast constraints. This approach also addresses loss development forecasts and offers multi-scenario based analyses to maximize product design, pricing, and marketing. Dashboards and reporting guide the users through deeper and deeper levels of the business segment and product line profitability so that they gain the understanding to affect the profit and loss statement in a positive way. In short, adopters of the Blueprint will be able to manage the performance of their products against corporate financials.

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