Insurance Product Profitability Blueprint

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.
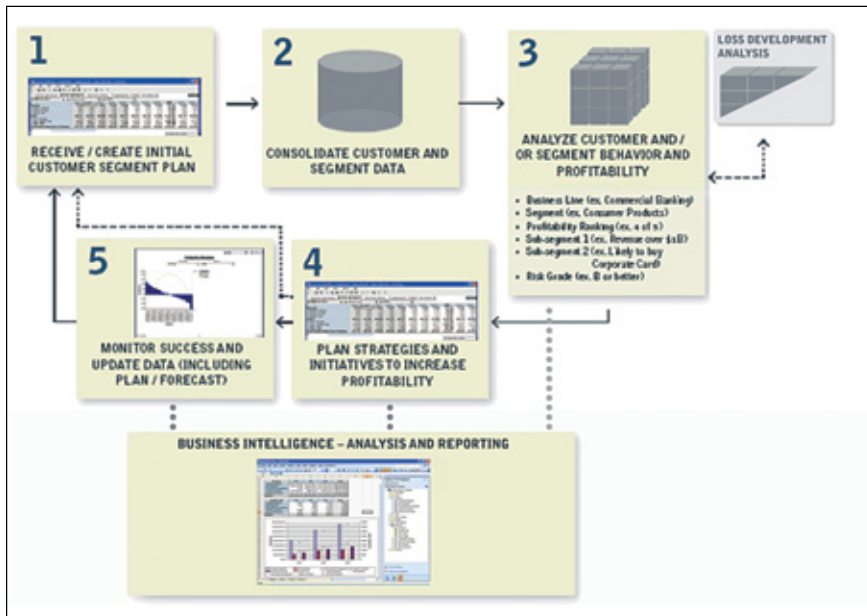
Introducing the IBM Cognos Insurance Product Profitability Blueprint

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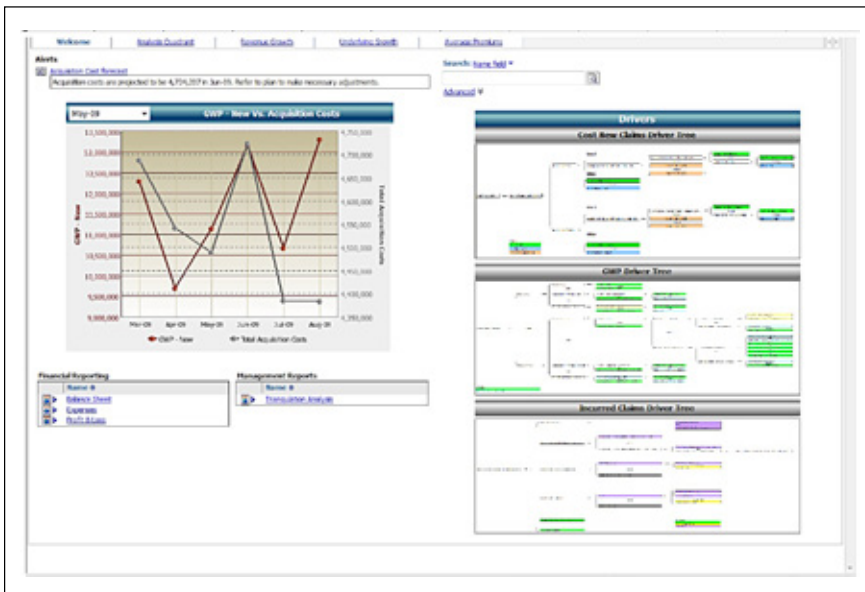
From the dashboard, the user can choose to drill down into logical areas to get more information, including:

- 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 drill-down 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.

Revenue

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.

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.

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.

About the IBM Cognos Innovation Center for Performance Management

The IBM Cognos Innovation Center was established in North America and Europe to advance the understanding of proven planning and performance management techniques, technologies, and practices. The Innovation Center is dedicated to transforming routine performance management practices into "next practices" that help cut costs, streamline processes, boost productivity, enable rapid response to opportunity, and increase management visibility.

Staffed globally by experts in planning, technology, and performance and strategy management, the Innovation Center partners with more than 600 IBM Cognos solutions customers, academics, industry leaders, and others seeking to accelerate adoption, reduce risk, and maximize the impact of technology-enabled performance management practices.

About IBM Cognos BI and Performance Management

IBM Cognos business intelligence (BI) and performance management solutions deliver world-leading enterprise planning, consolidation and BI software, support and services to help companies plan, understand and manage financial and operational performance. IBM Cognos solutions bring together technology, analytical applications, best practices, and a broad network of partners to give customers an open, adaptive and complete performance solution. Over 23,000 customers in more than 135 countries around the world choose IBM Cognos solutions.

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