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IBM® Industry Toolkit for Insurance

ROI Reference Template
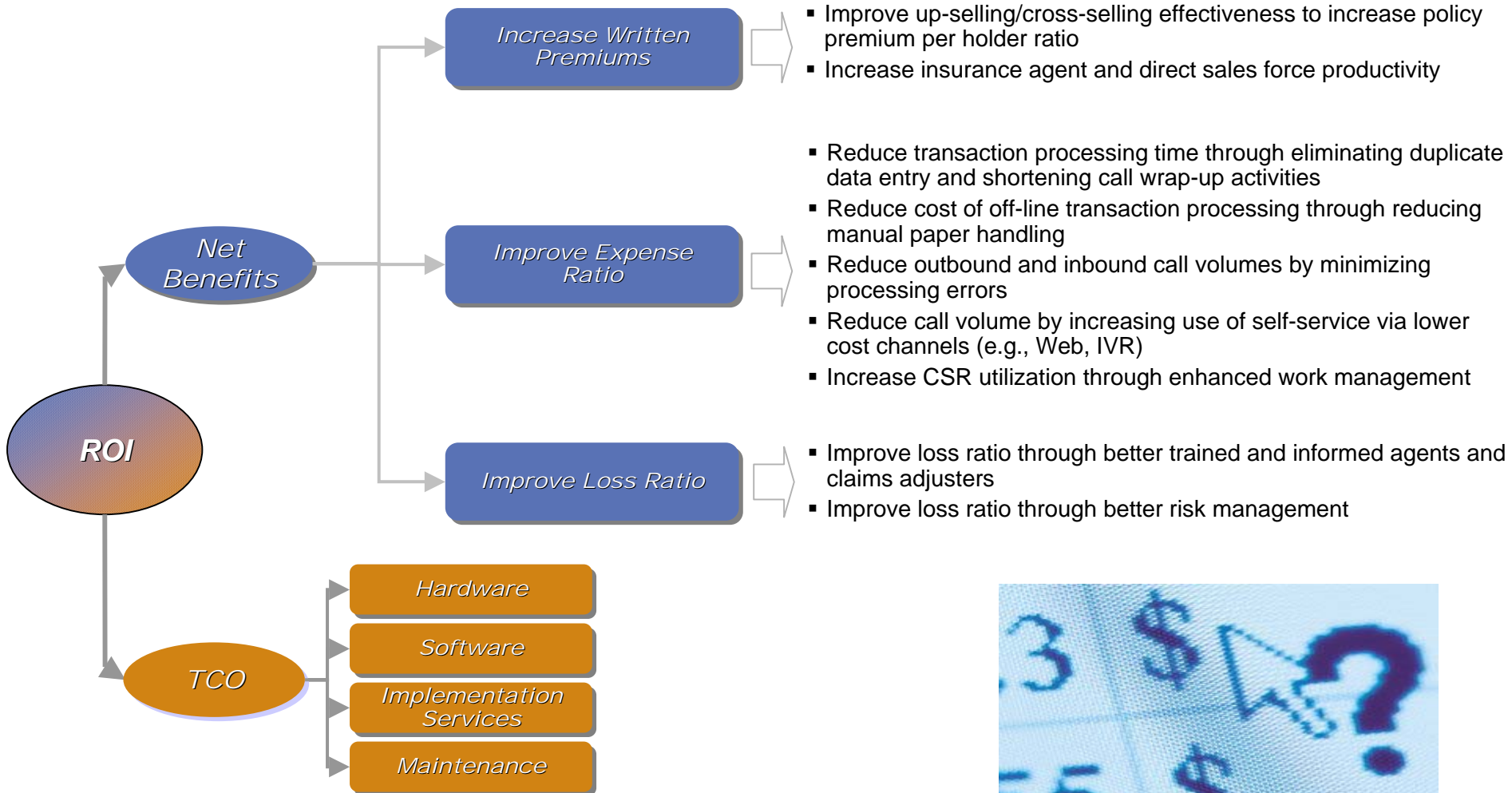
August, 2006

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Content

- ROI Framework

- ROI Data Input Questionnaire

- Sample Benchmark Details

IBM Workplace for Insurance – ROI Framework

Sample Benefit Areas & Value Propositions

ROI

Net Benefits

Increase Written Premiums

- Improve up-selling/cross-selling effectiveness to increase policy premium per holder ratio
- Increase insurance agent and direct sales force productivity

Improve Expense Ratio

- Reduce transaction processing time through eliminating duplicate data entry and shortening call wrap-up activities
- Reduce cost of off-line transaction processing through reducing manual paper handling
- Reduce outbound and inbound call volumes by minimizing processing errors
- Reduce call volume by increasing use of self-service via lower cost channels (e.g., Web, IVR)
- Increase CSR utilization through enhanced work management

Improve Loss Ratio

- Improve loss ratio through better trained and informed agents and claims adjusters
- Improve loss ratio through better risk management

TCO

- Hardware
- Software
- Implementation Services
- Maintenance

The pre-structured benefit framework can be used to identify and validate opportunity areas and scope

# Multiplier: None ▾	# Years: 5 ▾						
# △	Inc. ▾ ☐	**Benchmark Name**	**Conservative**	**Probable**	**Assertive**	**Inc/Exc**	**Benefits**
1	☐	Improve upselling/cross-selling effectiveness to increase policy premium per holder ratio	$2,125,000	$6,375,000	$10,625,000	I	Recurring
2	☐	Increase insurance agent and sales force productivity	$178,500	$535,500	$2,454,375	I	Recurring
3	☐	Reduce transaction processing time through eliminating duplicate data entry and shortening call wrap-up activities	$3,044,889	$4,034,667	$4,854,444	I	Recurring
4	☐	Reduce cost of off-line transaction processing through reducing manual paper handling	$435,625	$688,500	$531,250	I	Recurring
5	☐	Reduce outbound and inbound call volumes by minimizing processing errors	$1,551,250	$3,070,625	$4,590,000	I	Recurring
6	☐	Reduce call volume by increasing use of self-service via lower cost channels (e.g., Web, IVR)	$541,875	$1,530,000	$3,718,750	I	Recurring
7	☐	Increase CSR utilization through enhanced work management	$765,000	$2,295,000	$3,825,000	I	Recurring
8	☐	Improve loss ratio through better trained and informed agents and claims adjusters	$3,060,000	$5,100,000	$7,140,000	I	Recurring
9	☐	Improve loss ratio through better risk management	$3,060,000	$5,100,000	$7,140,000	I	Recurring
		Total Cash Basis Gain for 5 Year(s)	$14,762,139	$28,729,292	$44,878,819		

Benefit areas are pre-populated with qualitative and quantitative detail and can easily be customized to client-specific context

Benchmark Name: Reduce transaction processing time through eliminating duplicate data entry and shortening call wrap-up activities
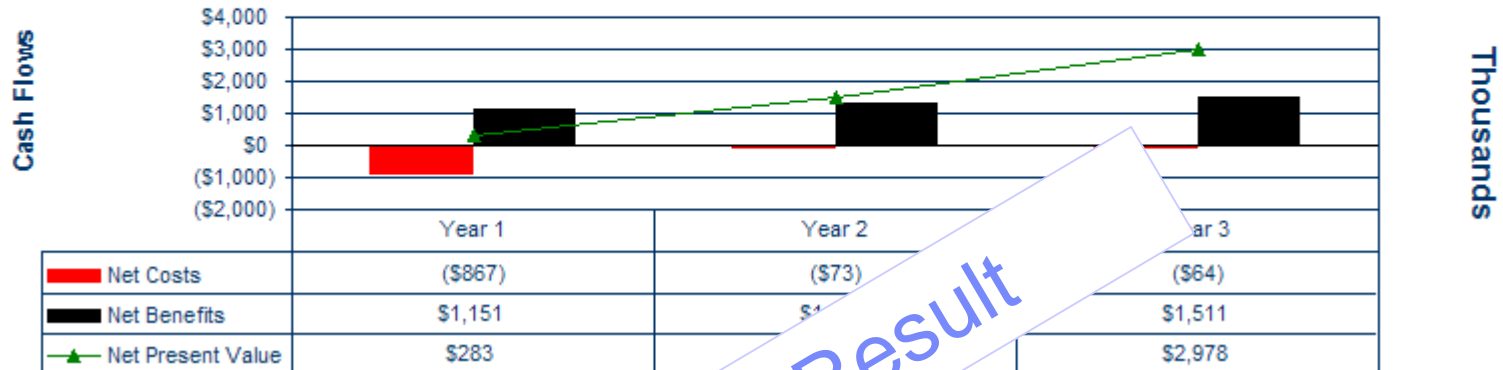
Assumptions: This benefit refers to opportunities to reduce total call/contact handling time, for example, by reducing the need for duplicate data entry and streamlined call wrap-up activities. MODELING ASSUMPTIONS: In the current environment, about 10% of all inbound calls/contacts require duplicate data entry (e.g., for caller validation, call wrap-up, etc.). The average data re-entry adds approximately 450 seconds per call to the call handling time. With the new capabilities in place, the need for data re-entry is estimated to decrease between 10 - 50% and the average effort for data re-entry is expected to be reduced from 450secs to 330secs (conservative) and 210secs (assertive).

Cited References: An insurance service provider was able to reduce call center processing cost by approximately 9% through a solution that allows call center agents to enter call log info once. The information is then propagated automatically to the correct systems, eliminating the need for duplicate entry. Also, calls transferred within the call center retain all previous data entered as well as a history of past activity, eliminating the need for redundant information searches and data entry.

Benchmark Variables		Baseline Type	Baseline Value	Forcast Type	Target Contributions		
					Conservative	Probable	Assertive
% of calls/contacts that require duplicate data re-entry	B	%	10%	%	90%	80%	75%
Estimated time spent on data re-entry per call/contact - (in seconds)	C	n.n	450	#	330	270	210
Average cost of CSR per hour	E	$.$$	$32.00	#	$32.00	$32.00	$32.00
# of calls/contacts annually (all channels)	A	n	2000000	#	2000000	2000000	2000000
Average wrap-up time per call/contact (in seconds)	D	n	45	#	20	15	10
A*(B*C+D)/3600*E				Target [t]	$883,556	$650,667	$457,778
				Baseline [b]	$1,600,000	$1,600,000	$1,600,000
				Annual Expense Reduction [b-t]	$716,444	$949,333	$1,142,222

The ROI tool provides the financial metrics required to support decision making

Benefit Forecast Net Cash Flow Summary

	Year 1	Year 2	Year 3
Net Costs	($867)	($73)	($64)
Net Benefits	$1,151		$1,511
Net Present Value	$283		$2,978

Cash Flow Su... ...e Scenario

in '000s		Year 3	TOTAL
Net Benefits	1,321	$1,511	$3,983
Net Costs	($73)	($64)	($1,004)
Net Cash Flow	$283	$1,248	$1,447	$2,978

FINANCIAL METRICS	1-Year	2-YEAR	3-YEAR
Net Present Value (NPV)	$283	$1,531	$2,978
Return on Investment (ROI)	133%	263%	397%

Payback Period (in months)	9.05

Sample ROI Result

Content

- ROI Framework
- ROI Data Input Questionnaire
- Sample Benchmark Details

ROI Data Input Questionnaire for IBM Workplace for Insurance

- **What is it?**
  - Excel worksheets to capture client input to key value drivers and benefit areas
  - Facilitates gathering and capturing of client input to personalize ROI Modeler benefit areas and benchmarks
  - Aligned with ROI Template in IBM Workplace ROI Modeler

- **How is it used?**
  - Review pre-structured benefit areas and gather required input for initial customization of ROI business case
  - Easy-to-use off-line mode when web-based review is not an option

- **Where can I get the ROI Data Input Questionnaire?**
  - Provided by IBM Sales Representative

Content

- ROI Framework

- ROI Data Input Questionnaire

- Sample Benchmark Details

Benefit Summary

# Multiplier: None ⌄ # Years: 5 ⌄							
	# △	Inc. ⌄ ☐	Benchmark Name	Conservative	Probable	Assertive	Inc/Exc	Benefits
📝	1	☐	Improve upselling/cross-selling effectiveness to increase policy premium per holder ratio	$2,125,000	$6,375,000	$10,625,000	I	Recurring
📝	2	☐	Increase insurance agent and sales force productivity	$178,500	$535,500	$2,454,375	I	Recurring
📝	3	☐	Reduce transaction processing time through eliminating duplicate data entry and shortening call wrap-up activities	$3,044,889	$4,034,667	$4,854,444	I	Recurring
📝	4	☐	Reduce cost of off-line transaction processing through reducing manual paper handling	$435,625	$688,500	$531,250	I	Recurring
📝	5	☐	Reduce outbound and inbound call volumes by minimizing processing errors	$1,551,250	$3,070,625	$4,590,000	I	Recurring
📝	6	☐	Reduce call volume by increasing use of self-service via lower cost channels (e.g., Web, IVR)	$541,875	$1,530,000	$3,718,750	I	Recurring
📝	7	☐	Increase CSR utilization through enhanced work management	$765,000	$2,295,000	$3,825,000	I	Recurring
📝	8	☐	Improve loss ratio through better trained and informed agents and claims adjusters	$3,060,000	$5,100,000	$7,140,000	I	Recurring
📝	9	☐	Improve loss ratio through better risk management	$3,060,000	$5,100,000	$7,140,000	I	Recurring
			Total Cash Basis Gain for 5 Year(s)	$14,762,139	$28,729,292	$44,878,819		

Improve up-selling/cross-selling effectiveness to increase policy premium per holder ratio

Assumptions: This formula can be used to capture the benefits associated with increasing up-sell and cross-sell opportunities that are enabled by capabilities such as easier access to a comprehensive view of customers needs and transaction history at the moment of customer interaction, better cross-functional collaboration to share and act on opportunities, personalized product and service offerings, real-time access to subject matters, ability to capture and pass on leads to agents, etc.

Cited References: A regional P&C Insurance provider has implemented an integrated agency service portal solution that improves agent sales competency, allows for easy capturing and passing on referrals to agents, and enables direct follow-up with opportunities. The expected improvement in written premiums was estimated at 4% resulting in an annual profit contribution margin increase of approximately $2.5M.

Benchmark Variables		Baseline Type	Baseline Value	Forcast Type	Target Contributions		
					Conservative	Probable	Assertive
# of customers	A	n	200000	#	200000	200000	200000
Average annual written premium per customer	B	$	$2,500	%	101%	103%	105%
A*B				Target [t]	$505,000,000	$515,000,000	$525,000,000
				Baseline [b]	$500,000,000	$500,000,000	$500,000,000
				Annual Revenue Increase [t-b] * Profit Margin (10%)	$500,000	$1,500,000	$2,500,000

Increase insurance agent and sales force productivity

Assumptions: This benefit refers to opportunities to increase sales force productivity by reducing the amount of non value-add work and making activities such as proposal writing, sales planning, research and knowledge sharing, etc. more effective. The quantification approach is based on 'freeing' up time for value-add sales activities which will enable the rep to better achieve or exceed sales quota.

Cited References: Casas Bahia - One of the largest mobile phone companies in Brazil, with more than eight thousand phones sold every day. IBM Websphere Portal has resulted in a fundamental change for Casas Bahia, reducing unnecessary workload and improving productivity across the company. All salespeople now have complete and immediate access to the information needed to do the job. The solution is expected to significantly impact overall sales. In addition to company wide gains in productivity, Casas Bahia will benefit from a massive reduction in printing costs. The solution has eliminated approximately 180 thousand printouts per weekend and over 10 million printouts annually.

Benchmark Variables		Baseline Type	Baseline Value	Forcast Type	Target Contributions		
					Conservative	Probable	Assertive
Time (hrs) per week a sales rep or agent spends on value-add, productive, sales activities	A	n.n	30	#	31	33	35
Average monthly quota per sales representative or agent	B	$	$20,000	#	$20,000	$20,000	$20,000
Number of sales representatives or agents in scope of solution	D	n	200	#	200	200	250
Productivity realization factor	C	%.%	35%	#	35%	35%	35%
(A*50/2000)*B*12*C*D				Target [t]	$13,020,000	$13,860,000	$18,375,000
				Baseline [b]	$12,600,000	$12,600,000	$12,600,000
				Annual Revenue Increase [t-b] * Profit Margin (10%)	$42,000	$126,000	$577,500

Reduce transaction processing time through eliminating duplicate entry and shortening call wrap-up activities

Assumptions: This benefit refers to opportunities to reduce total call/contact handling time, for example, by reducing the need for duplicate data entry and streamlined call wrap-up activities. MODELING ASSUMPTIONS: In the current environment, about 10% of all inbound calls/contacts require duplicate data entry (e.g., for caller validation, call wrap-up, etc.). The average data re-entry adds approximately 450 seconds per call to the call handling time. With the new capabilities in place, the need for data re-entry is estimated to decrease between 10 - 50% and the average effort for data re-entry is expected to be reduced from 450secs to 330secs (conservative) and 210secs (assertive).

Cited References: An insurance service provider was able to reduce call center processing cost by approximately 9% through a solution that allows call center agents to enter call log info once. The information is then propagated automatically to the correct systems, eliminating the need for duplicate entry. Also, calls transferred within the call center retain all previous data entered as well as a history of past activity, eliminating the need for redundant information searches and data entry.

Benchmark Variables		Baseline Type	Baseline Value	Forcast Type	Target Contributions		
					Conservative	Probable	Assertive
% of calls/contacts that require duplicate data re-entry	B	%	10%	%	90%	80%	75%
Estimated time spent on data re-entry per call/contact – (in seconds)	C	n.n	450	#	330	270	210
Average cost of CSR per hour	E	$.$$	$32.00	#	$32.00	$32.00	$32.00
# of calls/contacts annually (all channels)	A	n	2000000	#	2000000	2000000	2000000
Average wrap-up time per call/contact (in seconds)	D	n	45	#	20	15	10

$A*(B*C+D)/3600*E$

	Conservative	Probable	Assertive
Target [t]	$883,556	$650,667	$457,778
Baseline [b]	$1,600,000	$1,600,000	$1,600,000
Annual Expense Reduction [b-t]	$716,444	$949,333	$1,142,222

Reduce cost of off-line transaction processing by reducing manual paper handling

Assumptions: This benefit refers to opportunities to reduce total contact/call handling time through process efficiencies such as 1) reducing or eliminating paper sorting activities for paper-based transactions performed by CSRs, 2) reducing or eliminating sorting, assignment and scheduling currently performed by a Supervisor, 3) eliminating the print to paper, sort, assignment and scheduling of the phone calls that go to Processing.

Cited References: Case Example: Call center operations of insurance service provider - CHALLENGES: call center processing is paper centric, with much time spent in paper handling; limited visibility of the paper trail through the end-to-end transaction process; limited collection of metrics to support reporting aligned to business goals; no work management system in place for workload distribution, monitoring, and proactive rebalancing of work. SOLUTION: A workload manager is introduced to handle the assignment, tracking, monitoring, and rebalancing of workload. An online dashboard provides real-time visibility to workload metrics to facilitate proactive management. Through the workload manager, much of the time spent today in sorting emails, FAXes and paper documents into folders and assigning those folders out to be worked will be eliminated.

Benchmark Variables		Baseline Type	Baseline Value	Forcast Type	Target Contributions		
					Conservative	Probable	Assertive
% of e-mail/paper based transactions requiring manual processing	C	%	100%	%	90%	80%	75%
# of contacts annually (web, e-mail, fax channel)	A	n	500000	#	500000	500000	500000
# of contacts annually (phone channel)	B	n	1500000	#	1500000	1500000	1500000
% of total calls requiring manual processing	D	%	10%	%	75%	60%	50%
Estimated effort to review, print, rout, and sort (in secs per transaction)	E	n.nn	45	%	70%	50%	75%
Average cost of CSR per hour	F	$.$$	$32.00	#	$32.00	$32.00	$32.00
(A*C+B*D)*E/3600*F				Target [t]	$157,500	$98,000	$135,000
				Baseline [b]	$260,000	$260,000	$260,000
				Annual Expense Reduction [b-t]	$102,500	$162,000	$125,000

Reduce outbound and inbound call volumes by minimizing processing errors

Assumptions: This benefit refers to opportunities to reduce call volumes that are caused by avoidable factors such as processing errors. Examples include reducing the number of outbound calls needed as a result of collecting incomplete or incorrect information during the initial call.

Cited References: An insurance company estimated that about 50% of outbound follow-up calls can be avoided by reducing errors and incomplete information capture through enabling capabilities such as automatic edits, forms wizards, and enhanced CSR/Agent desktop navigation.

Benchmark Variables		Baseline Type	Baseline Value	Forcast Type	Target Contributions		
					Conservative	Probable	Assertive
Estimated % of transactions that require outbound follow-up call due to errors and incomplete information	B	%.%	70%	%	75%	50%	25%
Estimated cost per outbound call	C	$.$$	$1.00	#	$1.00	$1.00	$1.00
# of calls/contacts annually (all channels)	A	n	2000000	#	2000000	2000000	2000000
# of contacts annually (web, e-mail, fax channel)	D	n	500000	#	500000	500000	500000
% of e-mail/paper based calls that are caused by previous processing errors	E	%.%	10%	%	90%	85%	80%
Average current cost of paper/e-mail based transactions	F	$.$$	$3.00	#	$3.00	$3.00	$3.00
(A*B*C)+(D*E*F)				Target [t]	$1,185,000	$827,500	$470,000
				Baseline [b]	$1,550,000	$1,550,000	$1,550,000
				Annual Expense Reduction [b-t]	$365,000	$722,500	$1,080,000

Reduce call volumes by increasing use of self-service via lower cost channels (e.g., Web, IVR)

Assumptions: This benefit refers to opportunities to reduce call volumes through tactics such as 1) enabling additional self-service capabilities via IVR, 2) enabling additional self-service capabilities via client website, 3) enabling additional self-service capabilities via business partner / distributor website.

Cited References: An insurance company estimated a 5% reduction in contact center operations cost by migrating and/or avoiding an additional 2-10% of calls to lower cost self-service channels.

Benchmark Variables		Baseline Type	Baseline Value	Forcast Type	Target Contributions		
					Conservative	Probable	Assertive
% of total calls that can be serviced through lower cost channel (e.g., IVR, web self-service)	B	%	0%	#	5%	7%	10%
Average cost savings of lower cost self-service channel (per request)	E	$.$$	$0.00	#	$1.50	$3.00	$5.00
# of contacts annually (phone channel)	A	n	1500000	#	1500000	1500000	1500000
# of contacts annually (web, e-mail, fax channel)	D	n	500000	#	500000	500000	500000
% of total e-mail & paper based requests that can be serviced through lower cost channel (e.g., IVR, web self-service)	C	%	0%	#	2%	3%	5%
(A*B+C*D)*E*(-1)	Target [t]				$-127,500	$-360,000	$-875,000
	Baseline [b]				$0	$0	$0
	Annual Expense Reduction [b-t]				$127,500	$360,000	$875,000

Increase CSR/Agent utilization through enhanced work management

Assumptions: This benefit refers to opportunities to increase CSR utilization and productivity. for instance by automating work assignments, more effective workload rebalancing, and providing roles-based access to work assignments based on roles and skills.

Cited References: An insurance company implemented a CSR/Agent desktop solution with enhanced workflow capabilities that allocate work more dynamically across CSRs, back-office staff, and speciality support teams. These enhanced workflow capabilities are expected to increase CSR/Staff utilization by approx. 2% by converting previously idle time into productive time.

Benchmark Variables		Baseline Type	Baseline Value	Forcast Type	Target Contributions		
					Conservative	Probable	Assertive
# of CSRs	A	n	300	#	300	300	300
% increase in CSR utilization (in % of scheduled time)	C	%.%	0%	#	1%	3%	5%
Average annual cost rate of CSR @ 70% target utilization	B	$	$60,000	#	$60,000	$60,000	$60,000
A*B*(1-C)				Target [t]	$17,820,000	$17,460,000	$17,100,000
				Baseline [b]	$18,000,000	$18,000,000	$18,000,000
				Annual Expense Reduction [b-t]	$180,000	$540,000	$900,000

Improve loss ratio through better trained and informed agents and claims adjusters

Assumptions: This benefit refers to opportunities to provide agents and claim adjusters with timely and updated education and information so risks can be properly classified and claims correctly assessed and adjusted.

Cited References: An insurance provider deployed an e-learning solution integrated into an agent portal that provides agents and claim adjusters with role-specific, up-to-date training and guidelines, that can be accessed on-demand in self-service mode.

Benchmark Variables		Baseline Type	Baseline Value	Forcast Type	Target Contributions		
					Conservative	Probable	Assertive
Total annual written premium value	A	$	$300,000,000	#	$300,000,000	$300,000,000	$300,000,000
Loss ratio (in % of written premiums)	B	%	80%	%	99.7%	99.5%	99.3%
	A*B			Target [t]	$239,280,000	$238,800,000	$238,320,000
				Baseline [b]	$240,000,000	$240,000,000	$240,000,000
				Annual Expense Reduction [b-t]	$720,000	$1,200,000	$1,680,000

Improve loss ratio through better risk management

Benchmark Name: Improve loss ratio through better risk management

Assumptions: This benefit refers to opportunities to reduce losses by providing underwriters with better access to internal and external information that is used as input into risk assessment and management.

Cited References: An insurance provider used a portal solution that provides the underwriter a holistic view of key risk management input information, enhanced by powerful search and collaboration capabilities that are expected to reduce losses by 1%

Benchmark Variables		Baseline Type	Baseline Value	Forcast Type	Target Contributions		
					Conservative	Probable	Assertive
Total annual written premium value	A	$	$300,000,000	#	$300,000,000	$300,000,000	$300,000,000
Loss ratio (in % of written premiums)	B	%.%	80%	%	99.7%	99.5%	99.3%
	A*B			Target [t]	$239,280,000	$238,800,000	$238,320,000
				Baseline [b]	$240,000,000	$240,000,000	$240,000,000
				Annual Expense Reduction [b-t]	$720,000	$1,200,000	$1,680,000