Cutting Edge

Information Technology Section Quarterly

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From the Outgoing Chair

by Lamont D. Boyd, CPCU

Assuming you've read this latest issue of your *Cutting Edge* newsletter from front to back, you now know my role as chairman for the IT section is coming to an end following this year's Annual Meeting in Orlando. I am very pleased that Pat Saporito, CPCU, has accepted her new role as your incoming IT section chairman. Pat has been an active committee member for a number of years, was a previous *Cutting Edge* newsletter editor, and has contributed greatly to our many past successes. I intend to remain on the committee and will offer my time and effort to Pat and the committee to help us all strive for new levels of success.

Since joining the IT section committee five years ago and chairing it for the past three, I've been amazed at, and very pleased with, the contributions of so many people from so many industry backgrounds. My goal when assuming the role of your IT section chairman was to expand the purpose and focus of the IT section by promoting the involvement of folks interested in the property and casualty insurance industry. I'm pleased to say we've been very successful in that effort.

We've had significant contributions from people with backgrounds in systems and automation, as well as people with responsibilities in business interface, underwriting, claims, risk management, operations, quality management, product management, sales, and marketing . . . to name a few. Our contributors have been focused on personal lines, commercial lines, and specialty lines, and have been agents, brokers, attorneys, and consultants to the industry.

On behalf of our entire IT section membership, I want to thank each of you for your past contributions. Please continue helping those around you recognize the value of "information technology" to the ongoing success of the property and casualty insurance industry. ■

From the Editors

by Mary Moore-Campagna, CPCU, CPIW, and Robert L. Siems, CPCU

First, Mary Moore-Campagna and I want to thank Lamont D. Boyd, CPCU, for the opportunity to work with him on the IT committee. Lamont is the reason the committee has enjoyed its many successes over the last few years. His efforts have led to your new web site, which is further discussed in this newsletter. His efforts have led to our success at the Annual Meeting and Seminars. Look only further in this issue to read about the great seminars planned for the Annual Meeting and Seminars in Orlando. Lamont has organized the committee, written the agenda for meetings twice each year, and promoted good spirits and camaraderie for the committee members and section members. His work as chairman will be missed!

Our new chairman will be Pat Saporito. Many of you know Pat. She is the past editor of the *Cutting Edge*. She is industry partner, Insurance & Healthcare, for the Teradata Division of NCR Corp. in Cliffside Park, New Jersey. She put together the "Mind Your Business: Balancing Customer Knowledge and Privacy" seminar for the Annual Meeting ans Seminars in Seattle. Pat presented an overview of privacy, and discussed the role and benefits of data warehousing and securing personal financial data under Gramm, Leach, Bliley and health data under HIPAA. Her fellow presenters were Michael Koziol, senior director and counsel for the NAII, and Jack A. Jones, chief information security officer for Nationwide. Welcome to the chair, Pat! The next IT committee meeting will be in Orlando on October 19, 2002. We look forward to it.

Second, some of you are aware of the CPCU Society's strategic plan for the next five years. There are two goals:

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Goal 1

Make CPCU the most widely recognized, valued, and highly respected professional designation/brand in the property and casualty insurance industry by CPCU employers, key segments of the financial services industry, and other important audiences.

Goal 2

All Society members have access to a continually increasing number of programs and services that position them for success.

This newsletter is your newsletter. How we reach these goals is a team effort. My e-mail address is bobsiems@lawrls.com. The e-mail address for Mary Moore-Campagna is mary@mc2itcs.com. Please share your ideas with us on future articles and your thoughts on the goals that have been set. You have to let us know how the *Cutting Edge* can serve you for us to make the quarterly publications in 2003 the quality newsletter that you deserve.

Finally, rather than a Profile of Committee Member column in this issue, we want to introduce the editors to you.

Your writer is an insurance trial attorney and a consultant on litigation management. A father of three, I live with my wife, Caryl and our children in Baltimore. Co-editor, Mary Moore-Campagna, is also a consultant. Mary has her own company, (MC2 Insurance Training & Consulting Services). She is based in Soda Springs, California. ■

IT Section Web Site Up and Running

Lynn Davenport, CPCU, your IT section web site manager, has done a terrific job with the construction of our section's new web site. In the recent e-mail from your chairman, Lamont Boyd, highlights of that web site are identified:

- IT Section Committee Members' contact information and biographies.
- Upcoming technology and related events.
- Online resources, articles, and links.
- Learning and online education.
- Technology products.
- Resources and technical support.
- Security and privacy.
- Technology news.
- Productivity and efficiency.
- Top insurance and technology news headlines.
- Poll—let us know what you want from the web site!
- Coming soon: Hot Topics.

The link is **http://infotech.cpcusociety.org/**

Let's take advantage of Lynn's generous donation of so much time and make this web site a regular meeting spot. Do not forget to bookmark it! ■

Information Technology Committee Seminars for Orlando

With the Personal Lines Section, the IT committee is putting on a two-hour seminar titled "Practical Application of Credit-Based Insurance Scoring." You are aware that credit-based insurance scoring is used for underwriting decisions and premium decisions, and this use has been expanding. Moderator William T. Atkins, CPCU, from the North Pacific Insurance Company will address the subject with panelists Lamont D. Boyd, CPCU, Fair Isaac & Co., (our section's chairman); Gregg L. Antenen, Convergence Data; Gary E. Skerl, Progressive Insurance Company; and John Wilson, ChoicePoint. They will address consumer questions, scoring model development, scoring strategies, and the challenges to credit-based insurance scoring. This will take place between 10 a.m. - noon on Sunday, October 20, 2002.

On that morning, from 10:15 a.m. to 12:15 p.m., the IT Section will present a seminar on "Electronic Evidence and Discovery Issues." Electronic evidence has worked its way into the litigation landscape. A contemporary example is the discovery of e-mails in the Enron case and Merrill Lynch litigation. The substance of those e-mails has been very expensive for the companies that produce them through discovery. The presenters of the seminar, Eric J. Schwarz, M.B.A., SCERS, and H. Kirke Snyder, JDMSLA, are with Forensic Technology Institute. They have been intimately involved with the Enron discovery. Their presentation will focus on legal and ethical considerations regarding electronic evidence, acquiring and preserving the evidence, restoration of deleted files, electronic fraud detection, and other issues pertinent to the insurance industry as electronic evidence becomes more prevalent in our litigation. ■

RIMS Standards Projects

The April 15, 2002, edition of the *National Underwriter* reported that New York-based Risk Insurance Management Society (RIMS) planned to announce an update on a standards project at its annual conference in New Orleans later in April. A primary source for what is reported in this article is identified to be an Elizabeth Morrell, senior risk analyst at Southern Company Atlanta and vice chair of the Technology Advisory Counsel for RIMS. A year earlier, participating risk managers had identified their needs in terms of a standard, and ACORD organized a working group to develop an XML-based solution. You understand better than I do what is involved; the article as I read it explains that the group developed extensible markup language rules for standard codes that computers can use to read and combine information stored in different database formats, the objective being to standardize basic summary information about claims across the systems of carriers, third-party administrators, risk management information systems vendors, and others in the process. An additional source for the article is identified to be a Brenda Ayler-White, e-relations director, corporate marketing, Royal & SunAlliance. She describes the effort as a proof-of-concept rather than a pilot. She reports that the proof-of-concept participants, Royal & SunAlliance and Marsh, presently exchange risk data but the transmission process is expensive and slow, usually involving the mailing of computer disks and tapes. Do you think a call to either of these individuals to request information for an article in *Cutting Edge* is worthwhile? Is this the kind of project our readers and others in the Society may be interested in? ■

E-mail and Etiquette

Editor's Note: *This article is reprinted courtesy of Great American Insurance Company, Cincinnati, Ohio.*

Here's the question: Are there requirements for the proper writing and use of e-mail? The answer is yes, and here are answers to some of the questions you may have regarding the writing and sending of e-mails.

The number one thing to remember about e-mail is there is **no** private e-mail. Others can see your e-mails, and there's always the possibility of someone cracking your password and reading what you consider confidential. This is true for work and home. Never write anything in an e-mail you wouldn't mind your boss or mother reading.

Nearly all e-mail programs have built-in spell-check features, so be sure to use them. And remember that TYPING IN ALL CAPS is considered rude. It's the equivalent of yelling or shouting. And remember, there's no need for excessive punctuation!!!!

Another question always being asked regards how much content to send. A good rule is to stay to one page if possible. Here are some other things to keep in mind:

- Not all computers are alike—be sure what you're writing can be seen at the other end and if you're giving a link to an Internet site, always give the full address.
- If you know someone with a particular hobby, don't send the person every article, joke and newsletter you see about it. This gets very old—very quick.
- If you send an e-mail first prepared in Word, and it can fit in the e-mail, don't send it as an attachment. Paste it into your e-mail and avoid needless attachments.
- Some people check their e-mail regularly, while others only check theirs once a day, maybe less. Don't get upset if you think someone is ignoring your e-mail; they just may not have read it yet. On the other hand, if you're expecting an e-mail, check for it often and read and reply quickly. If you really need to get in touch with someone, make a phone call. It can eliminate a lot of aggravation.
- If you're replying to a group e-mail and there's only one person you really need to reach, don't reply to all. Send your message only to that person and not everyone. In other words, always be sure your message is being sent to the right address.
- Be careful that your message has the appropriate tone.
- Be sure to fill in an accurate subject line that previews the content of the message.
- Put the main point(s) of your message in the first paragraph and try to keep your paragraphs short and have ideas grouped logically.
- Always use initial caps and end-of-sentence punctuation and make sure your e-mail been spell-checked and proofread.
- Be sure that all promised attachments are attached and explained.
- Be correct in your writing. It's amazing how many e-mails get sent without proper punctuation, capitalization, or even full sentences. This can make it hard for the reader to understand the message and can even give the reader a wrong impression—like you didn't care enough to take time to send a proper message.
- If you get a message that makes you angry, don't send an e-mail back right away. The recipient can save angry words, and you don't want them to come back to haunt you.
- Always look at e-mail as you would any other type of writing—that is, a permanent document that customers and associates can potentially use to judge you.

Remember, once the e-mail has arrived—you can't get it back. ■

The Importance of Best Practices

Today, the term "best practices" has become synonymous with technology, but there's still confusion about what best practices are and how we know if and when they are being applied. Essentially, best practices are the proper deployment of technologies integrated with process and management methods to deliver maximum usable functionality at minimum cost.

Best practices are achieved through the proper application of technology or other process-driven enablers. In other words, best practices are the best way to perform a business process. They're the means used to achieve top performance and can then serve as goals for others striving for the same kind of excellence.

Recognizing a best practice is often subjective, and to increase the objectivity of identification, many operations use guidelines like these to test their validity:

A practice, method, or process may be deemed as a best practice when:

- It produces superior results. Superior is defined as 25 percent or higher results than normal output.
- It is clearly a new or innovative use of manpower and/or technology.
- It is recognized by at least three different references as a best practice (that is, three or more public domain sources reference the practice).
- It receives an external award.
- The organization's customers or suppliers deem it.
- It is recognized by an industry expert.
- It leads to exceptional performance.

A best practice isn't the definitive answer to a business problem. Instead, it's a source of creative insight for business improvement. Adapting best practices to specific needs can dramatically affect performance—and this obviously can lead to breakthroughs that save time, improve quality, lower costs, and increase revenue.

They're techniques and processes that enable us to reach our goals more efficiently and with greater success. For instance, one group might struggle with any aspect of a job's requirement—simply because they don't have much experience with it. Gradually, their skills improve. Yet if they were given a recipe for success, provided by an expert in that area, their skills would probably improve more quickly.

Each project and group needs to understand that best practices must be adapted to specific business strategies. Copying what another business group is doing may not work.

Best Practice Enablers

Best practices are determined by benchmarking projects and this means far more than just changing the way we conduct business. It also entails changing paradigms in the workplace, as well as the behind-the-scenes mechanics to bring about dramatic improvements in output and performance. ■

News from the Total Quality Section Chairman

by Glen R. Schmidt, CPCU, CLU

One Is a Lonely Number

This newsletter is intended to provide you with state-of-the-art, specific information for your interest section.

There are interest sections that have broader focus that can provide additional, valuable information for all insurance professionals. One such section is the Total Quality Section (TQ). For an additional $30, you'd have access to the *TQ* section's quarterly newsletters that address a variety of topics pertaining to quality.

Consider this:

- Total quality pervades every industry specialty.
- Commitment to continuous learning and improvement is at the heart of TQ's mission.
- The *TQ* newsletter will assist you in very practical approaches to become more efficient and add value to your organization.

Give some thought to joining the TQ section to complement your learning in your primary industry focus. ■

Back to the Basics: Accounting for IT in Business Performance

by Knowledge@Wharton

Editor's Note:
Written by Knowledge@Wharton (http://knowledge.wharton.upenn.edu/) in collaboration with Microsoft.

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Not so long ago, many considered speed to be the primary tactic for blocking competition and increasing market share. Companies rushed to field a dot-com strategy or some innovative application of IT that was going to secure their role in the new economy. As a result, many firms under-analyzed or over-invested in IT in pursuit of market dominance. ROI was a fruit thought certain to be enjoyed down the road.

Today, it's back to the basics. Companies are serious about using technology as a competitive advantage. They are learning that IT purchases tied to a company's business strategy have the most clear-cut business value, as expressed in traditional financial terms like Net Present Value (NPV) and payback. Moreover, when IT solutions and business strategy are woven together, companies are finding that business benefits are often broader and deeper than expected.

Indeed, firms should think twice about what their strategic needs are before they make a particular IT investment, cautions Donald Koscheka, and a senior consultant at Microsoft. Not knowing what benefits to expect is a sure-fire way of capping those benefits. A company should take a two-step approach in determining the business impact of any technology it is considering, he says. First, it must know which business processes it needs to stay in the money—for example, the flows of information and decisions that must be made to process an insurance claim, prepare a case for litigation, or make a new drug. Then the company must map technology to those processes and decide whether the investment will have positive or negative impact. Pretty basic.

Companies should find an appropriate measure of the benefits that technology can deliver. Koscheka gives the example of a pharmaceutical company in Pennsylvania. The drug company wanted to improve the productivity of its research scientists but couldn't settle on the right metric to use. Ultimately, it defined productivity as the number of chemical trials that test positive for a certain disease model. If a drug company is looking for a cure for, say, Parkinson's, he notes, it might have to screen a few hundred thousand chemicals to find one that has a positive effect on the disease model. "You can't predict success by the number of chemicals tested, but we were able to increase the number of chemicals the research department could screen for a disease model, and therefore increase the probability of finding the right chemical," he says. "We measured the productivity of scientists by the amount of data they could analyze rather than by what they produced."

Just as IT can speed up a process basic to the business objective of a company, the right technology investment has the potential to catalyze or alter a company's strategy—as long as senior management is willing to make the necessary changes to the organization.

Business Value of Customer Benefits

In the late 1990s, e-business was the new thing, held up as a way to squeeze every last inefficiency out of the supply chain. Many of those e-business initiatives were wilting on the vine until the idea of sharing information with clients caught on.

Scott Specialty Gases, a Philadelphia-headquartered firm, didn't jump blindly into e-business, simply assuming customers would change their ordering habits. Scott identified ways it could help customers and turned to IT to make its core business model more customer-oriented. The 500-person company makes specialty gases for utilities, petrochemical plants, and others in the chemical industry. "The advent of the Internet caused us to think differently," says Leanne Merz, director of e-business at the firm. "For the last three decades, we tracked the containers holding gases we sent to clients—because we rent those containers. We said, 'We have all this information about our cylinders, what's been in them, how long our clients have had them. How can this help our clients better manage their chemical inventory, and how can it help differentiate Scott from the competitors that don't have this information?'"

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The firm had begun contemplating an e-business initiative in the mid-1990s and launched eScott, its supply chain management product, in 1998. Scott quantified potential savings from an internal perspective. "We looked at the number of line items a customer service person enters, how much time it takes to do that, how much the person is paid," says Merz. In addition to the savings in data entry costs from customers entering orders themselves, there were fewer mistakes, and customer service people could be moved to other, revenue-generating areas. Broader benefits included attracting new customers to the firm through the Internet and greater customer satisfaction.

From a customer's perspective, the benefits were clear. Clients could go online and check the status of their orders anytime—and not just when Scott was open (many of the company's clients run around-the-clock operations). There were also cost savings for customers. Processing each individual order used to cost customers $100-$250. According to Scott, research suggests that the cost of an online order has dropped to $10-$25.

One of the smaller, privately held players in the specialty gas industry, Scott managed to hold its own in a field of much larger, billion-dollar companies by making its e-business offering more advanced than those of others and the information it was sharing more useful to clients. Its project management information system, for example, helps clients identify redundant inventory or products they're paying rent for. "We can let them know they're wasting resources because they have idle inventory," says Merz. "That's been a great way to show customers that we can help them take some of the costs out of their business and be more productive." The company also helps clients meet EPA compliance rules by ensuring that they have access to EPA-mandated documentation and by notifying clients when their products are about to expire.

Valuing "Potential" Benefits

While many companies require some kind of justification for IT investments, such as breakeven, NPV, or ROI, many also recognize that it can be a bit of a stab in the dark. After all, technology purchases may be investments in capabilities in general and not just in IT. "What's nice is that [IT investments] can be leveraged in many markets and in new ways," says Paul J.H. Schoemaker, a Wharton marketing professor and research director of Wharton's Mack Center for Technological Innovation. "What's frustrating is that it is hard to price these potential benefits."

A technology, for example, may only have value in conjunction with other things—like a good strategy, an installed customer base, or a product or service that the market desires. "To tease out the value that one component contributes to the basket is not easy," he notes. "The fact that capabilities have plasticity that can be leveraged in a number of ways further complicates it." Even if managers attach a particular business value to a specific IT capability, adding up the hypothetical pricing benefits may still underestimate the true value of the technology, he says.

What, for instance, is the dollar value of making a bank's monthly portfolio statement available electronically to customers? It certainly cuts down on the bank's printing and distribution costs, but the impact for customers is trickier to measure. The answer is that it may come down to customer retention and attracting new customers. The same goes for wireless technology. But the question then is, how many new customers can the company capture? The answer can only be derived empirically, says Microsoft's Koscheka. He notes that more companies should run small tests to try out new technologies, or should try to model the impact of those technologies using Monte Carlo simulation. Sometimes, applying the basics can get complicated.

Schoemaker and Koscheka also make the case that real options offer a good way for companies to look at some IT investments. Real options, which apply the idea of financial options to capital budgeting, can be used to quantify the changing value of an investment or asset in an environment of uncertainty. The real options framework allows more flexible decision-making so a company doesn't have to stick its neck out as far.

This is one of the arguments made in *Wharton on Managing Emerging Technologies*, co-edited by Schoemaker and George S. Day. The book, published last year, asserts that managing new, unproven technology represents such a different game that old approaches probably won't work. On the financial side, the editors recommend using real options rather than NPV, because of uncertainty about the technology as well as future business conditions. In terms of intellectual property, the focus should be less on patents and copyrights and more on viewing the new technology as a complementary capability that derives value in combination with other things the firm does. Emerging technologies may also require a different approach to marketing, HR and legal issues.

New Ways to Measure Business Value

Various models have been constructed to evaluate the business value of IT investments. Microsoft's Rapid Economic Justification program, for instance, offers an in-depth analysis of a technology's potential benefits, along with hurdles that may need to be overcome to realize the benefits of the investment. The REJ model also tries to establish accountability in a company's business units for the success of IT investments.

While there is no cookie-cutter way to evaluate the business value of all IT investments, one new methodology that makes sense for certain companies is revenue distance, says Ravi Aron, a professor of operations and information management at Wharton. Particularly in knowledge-intensive firms—those such as brokerages and financial services firms for whom information about customers is chief competitive asset—the revenue distance methodology is a way to prioritize IT initiatives. "If I'm a financial services company, most of my revenue comes from customers," says Aron. "If I implement a system that makes the interface with customers—the point at which revenue is realized—richer and deeper, I can immediately see the value of this. As the revenue distance increases, the benefits of an IT investment become less clear and the justification for the investment more nebulous." Firms using this common-sense technique, he notes, could decide to outsource business processes as their distance from the source of revenue increases.

Jeanne Ross, a principal research scientist at MIT's Center for Information Systems Research, points out that some IT investments—particularly those related to infrastructure—have such a significant, long-term impact on an organization that making a business case for them cannot capture all of their benefits. For infrastructure decisions, she notes, "a company may have to start by saying, 'Who are we as a company and what are we trying to accomplish? And then, what core infrastructure must we have in place in order to accomplish this?'" Basic questions, indeed.

Delta Airlines is a case in point. A few years ago, the company looked at its infrastructure and found it wanting, she says. If a change was made to a flight in progress, many people at Delta who needed to know about the change would not be aware of it. A gate agent, for example, might not know why a flight hadn't arrived or at which gate it would arrive. The systems were disjointed. The company's senior management decided they needed a core infrastructure that centralized all information about flights—and that getting that database in place and developing standardized methods of accessing that information was critical to the company's future success and agility.

"That's not done by talking about how much it will cost to put the infrastructure together and how much money the company will save," says Ross. "Instead, you say, 'Here are the systems we use and here's what it would take us right now to get this information.' For one application it may make no sense to develop this infrastructure, but for ongoing applications

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and to be as good as our competitors, if not better, we need to do this." It is incumbent on CIOs and senior technologists, she insists, to tell senior management what it will take to build a more robust infrastructure and what the benefits are.

FedEx Corporation is another firm whose success and performance hinges on the agility of its ongoing engagement with technology. It approaches the problem of teasing out components of IT's business value by sorting them into three basic levels, depending on the purpose of the technology. First, says Robert B. Carter, executive vice president and CIO, there are required IT investments made for safety and regulatory reasons. Second, there are strategic customer initiatives. "While we do some level of ROI and cost justification on these initiatives, at the end of the day we may invest at a strategic level—in other words, the ROI may not meet the hurdle rate," he says. Third are productivity and internal IT initiatives, which are always evaluated on an ROI basis.

When the Company Must Change

Management must also be realistic about how much their organization may have to change to take advantage of new technology-generated capabilities. William Barna, a senior consultant at Microsoft Consulting Services, says, "in companies where IT is seen as a way to gain competitive advantage, a CIO can make a competitive difference, while in more old-school companies, IT is seen as an administrative resource that is supposed to result mainly in cost-cutting."

One company Microsoft did an REJ study for, he says, knew that its current technology equipment was getting in the way of services it wanted to provide customers, but wasn't prepared to let a technology solution change the way the company sold itself to customers. It feared—reasonably—that its IT staff wasn't as skilled or as innovative as those at its competitors and that its investment would be imitated away. IT must have enough stature within a firm to ensure that any advanced technology plan can be executed and maintained at that level, notes Barna.

Making investments at a strategic level often requires some soul-searching. Sometimes there are institutional obstacles to embracing a new technology. If a new technology supplants an existing one, divisions may be realigned, skills once considered valuable may no longer be as relevant, and people may lose their jobs.

For example, Eastman Kodak Company faced a host of obstacles when it wanted to move from chemical emulsion technology to digital imaging photography. Digital initiatives were buried in different parts of the organization and "the organizational structure was run by and favored chemical emulsion," points out Wharton's Schoemaker. It wasn't until a new CEO—George Fisher, who came from Motorola—was aboard that the company could reorganize itself to take advantage of the new technology. Fisher put the digital technology projects in a separate division that was as powerful as the chemical emulsion division, hired people with electronic engineering backgrounds rather than chemical engineers, and paid them the market rate, which was higher than what chemical engineers earned.

Basic, yes. But the technology had to be one of the front and center priorities of the CEO for this to work. "The same is true for a company like, say, GlaxoSmithKline looking at genomics," says Schoemaker. "That (core technology) must be approached differently than if it were an enabling technology like a Palm Pilot that helps salespeople organize their schedules."

Gone are the days of companies racing to beat competitors to the next "must have" information technology solution. Companies are now approaching IT investments with a greater sense of seriousness than in the past. That is as it should be—and it spells good news for technology investors and vendors alike. For companies eager to make the most of their IT investments, it is crucial to align business strategy with technology's tools. In today's cost-conscious, productivity-driven business environment, that means going back to basics and focusing relentlessly on building and delivering long-term business value. ■

Five Things You Should Be Doing on the Internet

by Robert Regis Hyle

Your web site is the doorway to your company for an increasing number of consumers. Do you have a welcome mat outside, or are customers being left out in the cold?

–Robert Regis Hyle

How far are we from the day when a major carrier like State Farm Insurance changes its name to StateFarm.com? As a sales distribution channel, that day is still some way off, undoubtedly much to the relief of the people on the business side. But as customers increasingly turn to the web, its clear company sites have become a powerful service distribution channel that has become a major part of the insurer's corporate identity.

"I think it's an important part of the puzzle," says Bob Reiner, director of enterprise Internet services for State Farm Insurance. "It's certainly a different connecting point for the customer, especially for the next generation coming up. It may very well be their first impression of you as a company."

Given that companies can't make a first impression the second time, the Internet is a critical component of a corporate business plan and will grow in importance. "As time progresses," says Jamie Bisker, director of research for insurance practices with the TowerGroup, a research and consulting firm located in Needham, Mass., the web will become easier to use and will enable instant communication between businesses and consumers."

Key to the success of a site is its integration into the enterprise-wide architecture. "There has to be synergy, both online and offline, within your company," says Reiner. "You better coordinate your online brand with your offline efforts."

A web site is a touchpoint for consumers and insurance carriers. "A good web site does three things," says Bisker. "It provides a way for the company to communicate information to the consumer. It allows the consumer to connect with the company. And it offers service capabilities for both sides."

So where should insurers set their sights when it comes to their sites? Gómez, Inc., is an Internet rating service and consultancy for a variety of industries, including insurance. Three of its highest-rated web sites in terms of ease of use, customer confidence, on-site resources, and relationship services are State Farm Insurance, John Hancock Financial Services, and Progressive Insurance.

Each of their web sites provides the little things that make them standouts in a world of tangled web offerings—an agent locator system or multi-lingual capabilities, for example. "You've got to give customers what they want, when they want it," Bisker says. "You have to produce a site the way the customer wants to see it." And quality counts. "Whatever you promote on your web site you better be able to provide," Bisker adds. "It doesn't do you any good if it is only available sometime."

Insurers and consultants agree there are at least five essential areas to address in producing a topnotch insurance web site: self-service, connectivity, business, security, and information functions.

Self Service

Imagine a representative of your company telling a customer to "do it yourself." A decade ago that would have seemed outrageous. Today, if self-service is not in an insurer's business plan, the company is wasting money. "The cost of facilitating routine customer service can be prohibitively expensive," says Greg Davies, senior analyst for financial services with Gómez. How expensive? Compare these numbers: dealing with agents-$30 per inquiry; dealing with call centers-$12 to $18 per inquiry; dealing with the Internet-$1 to $2 per inquiry. "That's pretty much a no-brainer," Davies says.

State Farm's Reiner believes that a company can cut expenses with self-help programs on the web site, but you have to have the infrastructure available to accept

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and store the data, and that can be expensive. Such moves require a major commitment from the carrier. "In terms of the way this industry usually moves, we've gone pretty quickly," Reiner says. "It takes a tremendous amount of support from upper management, though."

John Hancock, on the other hand, doesn't allow its life insurance customers to make many policy changes online. "We give them the ability to check the value of their investments," says Wendy Benson, second vice president of e-business and retail partnership. She says the goal of John Hancock is to make the Web experience easier and more convenient for the customer.

"We have the benefit of a very strong brand," she says. "Having a full product suite (available to customers) is important as well, whether they are buying or just gathering information."

Claims processing will be the long-term beneficiary of self-service. Starting the claims process is easy to do online, notes Reiner, but real-time claims status is much more complicated because there are multiple businesses and customers involved. "It's a little more complicated than someone's accounts," he says.

State Farm is getting more initial inquiries about claims, which can speed up the process. "We are getting quite a few of the fender-bender type claims online," he says. "Those can be filed at the (insureds') leisure." The carrier is not getting many catastrophe claims online because customers still prefer to talk to an agent or a claims rep for those types of claims.

"You'll have people who want to do things on their own like set up their checking accounts and do online bill payment as well as make transactions with their policies online," Reiner adds. "We think we need to take a synergistic approach to this in the marketplace and meet our customers' needs in those arenas."

The first thing a carrier should do, according to Bisker, is review its business cases and decide exactly what it wants to accomplish per the business strategy before leaping headlong into technology. "You have to make your company easy to do business with," he says, adding that if customers struggle to navigate your web site, they aren't likely to come back. Capabilities users will appreciate help tools that answer anticipated questions. Another piece of advice: A carrier should test self-service functionality within its own office first, says Bisker, and then extend it to agents through an extranet before offering it to customers.

The Gómez report, "Policyholder Self Service," substantiates that view. Gómez surveyed web site users for personal auto policies and found that while only 26.8 percent of insured "general web users" have visited their carrier's or agent's web site, nearly half of them have attempted to use the Internet to access information on their automobile policy or perform customer service tasks. A web site must be easily navigable, Davies says, because over half of those who were unsuccessful at performing self-service say they are unlikely to try again, while successful self service will likely draw people back (74.7 percent).

Carriers are focusing on self-service to fulfill a range of customer needs from fully online endorsement requests to the basic e-mail queries.

One concern for carriers is that agents may resist or not appreciate deflecting all those calls to self-service. These points of contact might be the only time agents will have a chance to talk to their customers, which is also an opportunity to cross promote other products.

Another issue is awareness. If a company offers self-service functionality, it needs to inform its customers of the process. Most customers don't even know their insurer offers online self-service, and those who do perform such functions often discover the feature on their own, according to Davies. Communication is vital, because nearly 25 percent of users surveyed by Gómez believe it easier to phone, fax, or visit an agent to accomplish a task than do it on their own online. The web sites may be partly to blame for this. Navigating some sites, particularly those with help tools available, is easier than others.

Where's Waldo? (Or Whatever Your Agent's Name Is)

Most CIOs would prefer to stay out of the debate over the need for agents. But even if your web site has the capability to underwrite and issue a policy, most of a carrier's sales come through agents. Therefore, web sites need to offer customers a quick and easy way to pursue the human connection.

Davies says the agent-Internet relationship is no love affair. "The word 'Internet' is still a bad word for many insurance agents," he explains. "Their thought process is that the Internet is one step closer to eliminating them from the process."

State Farm's approach is that there are always going to be some people who are going to feel a real value in establishing a relationship with a State Farm agent. "That will always be the core of our business," Reiner says. "But we also need to be available by phone and Internet on a 24/7 basis."

While agent locators are useful, they need to facilitate more of a connection between the customer and an agent than merely offering a simple address or phone number. The Hartford Financial Services recently developed a system with InfoNow that enables customers to contact the agents immediately and allows the carrier to keep track of the leads (see *Case in Point*, p. 15).

"We're proud of the functionality on our web site that helps drive business to them," says Toby Alfred, Internet site manager for Progressive, who believes her company is bridging the gap between agents and the company's web presence. "When consumers visit Progressive.com to get a quote, they're given the contact information—including name, address, e-mail address, and a web site link for up to five nearby independent agents."

And consumers want insurance agents, says Alfred. "The fact is, many consumers still prefer speaking to someone personally before they purchase," she notes. "We think there will always be a demand for this."

But Progressive also knows that many of its customers can do just fine without an agent. "We want to provide an option for those consumers who prefer an alternative: the night owl who wants to shop at three in the morning. Or those folks who just want a quick and easy way to check out coverage options and pricing on their own."

While The Hartford developed its system with the help of a vendor, State Farm was able to build its own locator system on its Web site. "We actually built (the agent locator) here and maintain it as well," Reiner says. "We brought in some people to help us. We have the portal up and running so that when you register with State Farm you have a portal site, and we have a way of having a dialogue with you through that. It varies across the board. We use different partners for different applications."

Bisker says this and other functions are falling under the heading of web services (see *Evolution, Not Revolution*, p. 22), noting, "web services are the logical next step for improving a corporate web site."

Can I Quote You on This?

Developing a fast and accurate quote system is essential for a carrier's Web site because many policies, such as term life and personal auto, have become commodities. That involves collecting data from all over the country (depending on how many states a carrier is licensed in) and spitting it right back out in a matter of seconds.

Reiner says, "I think getting integration into the back-end legacy—the big iron—is always difficult with formatting the data properly and contextualizing the customer experience." Carriers relied on agents to handle inquiries, and now the calls come from anywhere. "For so many years, the customers dealt with agents and claims reps, and now more of the organization is dealing directly with the customer through the Internet," he adds. "Data has to be

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Five Things You Should Be Doing On the Internet

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presented in a certain manner, a certain focus, and a certain look and feel. It's all very complex, and we're lucky to have some really good people here who understand that."

"We're piloting new functionality that allows consumers to get a Progressive quote right off the agent's web site," Alfred says. "The consumers' contact information is then sent to the agent in the form of sales leads."

The Internet has significantly affected the purchase habits of American consumers. One in five adult online users utilized the Internet the last time they were in a purchase mode for insurance to support their decision, according to Gómez.

"I think the tools are out there today," Reiner says. "We built our own in-house quoting function here in conjunction with one of our strategic partners. I think there is software available now and programs available for the smaller businesses where they can replicate some of the things that have been done by the bigger organizations. It's a little simpler now than it was back in 1996 or 1997 when we first got involved with these things."

Many people in the industry are surprised that online aggregators such as InsWeb are still in business, but Davies believes the aggregators are giving customers what they want—quotes. "People want rate quotes, and if you can't deliver them, they will go somewhere else," he says. "The competition for carriers comes from the carriers themselves, not the aggregators. They still offer an alternative for customers, but the impact is less acute."

How Secure Are We?

With all the data being collected by insurers on their customers, keeping it private and secure is not only good business—it's the law. "In terms of how Progressive approaches the issue, integrity is one of our company's core values, and security is very important to us," Alfred says. "We use state-of-the-art secured socket layer (SSL) technology to ensure security of our customer's information. Beyond that, we protect our customers' privacy and how we handle and store the information."

Progressive wouldn't disclose its security measures, but Alfred says, "Considering the state of technology today and what's available to companies to protect this information, I would say we are doing all we reasonably can to protect the security of our customers and our web site."

State Farm uses cookies to facilitate site navigation and to provide additional security. It also uses the most recent release of SSL technology utilizing encryption of up to 128 bits to ensure the safety of the data transmitted to the web site.

Reiner believes it is valuable to have your web site checked periodically, for both content and security problems. "What's been really helpful to us is to have evaluations of our Web site done by a non-biased, third-party arbiter," he says. "It's nice to have them come in and give you an objective, critical analysis of your web site. We try to do that every year, and while sometimes it's surprising, sometimes it's reinforcing. I recommend it on a consistent basis."

Information

Fresh content can make the difference between an active web site and one that is waiting for someone to click on. "It's an integrated effort between the business and the systems area," Reiner says. "These days, things are moving so fast and you have to be fluid, flexible, and able to adapt. Having outside partnerships and strategic alliances helps you do that. Our systems department allows us to integrate, and that's not an easy thing to do in an organization our size. We've done it fairly effectively in a short amount of time, which is also another shift in the paradigm because ordinarily things don't move that quickly in an organization this size, and we have moved fairly quickly."

One area of information that State Farm and some others have worked on is communicating with the huge Spanish-speaking population in this country by

translating its web site into Spanish. It sounds simple enough, but State Farm found it was "technically challenging," according to Reiner. There are different dialects of Spanish spoken by the various Spanish-speaking people who have immigrated to this country. For instance, Mexican-Americans in California or Texas speak a different dialect than immigrants from Cuba or any of the island nations of the Caribbean.

"We wanted to find a baseline Spanish translation that would satisfy our Spanish-speaking customers without offending any of them," he says. "It took several months to translate it because there were some insurance terms that just don't translate well."

French will be the next language tackled, he says. State Farm does a lot of business in French-speaking areas of Canada, and Reiner notes, the company felt it important to recognize what many businesses fail to acknowledge: "Many people think of Canada as an extra state, but of course it's not," Reiner says. Recognizing those differences assists State Farm from a global perspective, as well. Future insurance dealings are less likely to be structured around one country or one state, and the need to think globally will be a priority, according to Reiner.

Progressive is also aware that English is a second language for many of its customers. "Customers can search our web site for agents who provide special services—such as proficiency in a foreign language," says Alfred.

Progressive believes its name is indicative of the way it does business. "Our goal is to continually enhance the site to meet the growing demands of consumers," Alfred says. "We've been an innovator in the insurance industry."

What's It All About?

Change occurs quickly in business, but the speed of change brought on by the Internet is staggering. "You just can't blink or take a nap or you'll miss it," Reiner says. "You always have to be skating to where you think the puck's going to be." Bisker adds, "The Internet is an important component now, and as time progresses, the Web will become easier to use and enable instant communication between customers and carriers."

So while the Internet may not have changed the way we do business now, insurers agree we're not done yet. Six years ago, insurance web sites were almost primitive when compared with today's, according to Reiner. In six more years the same thing could happen. ■

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