



WHITE PAPER

Managing the Insurance Supply Chain

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1. Introduction – Insurance is no exception

The term supply chain is generally associated with the retail and manufacturing sectors where it is synonymous with the concept of supply and demand. However, the supply chain concept applies to nearly all business sectors where a number of components are needed to build a product for an end customer.

In the same way that a manufacturer needs raw materials to make a product that he then supplies to a retailer, or a supermarket takes products from a number of manufacturers to provide to their customers, the Insurance industry has a number of suppliers that deliver services that make up the end product to the consumer, be it protection for the family car or a scheme to cover the corner shop.

For many years the use of electronic trading has been recognised as an essential tool for manufacturers and retailers and increasingly the Insurance sector is having to meet the e-trading demands of its “supply chain”, all of which come in different forms.



2. E-trading roots

The roots of e-trading in the Insurance Market can be traced back to the introduction of EDI to handle the exchange of EDI formatted messages between Insurers and their intermediaries. The driver behind this was the software houses that provide solutions to brokers and needed to integrate the exchange of risk information with the Insurer.

The use of EDI in personal lines insurance was pioneered by MISYS in 1990 and is now widely used by all the Insurance software houses - overseen by Polaris: the standards board owned by the Insurers. Through time the EDI trading model for Household and Motor has matured with the introduction of Full Cycle EDI, handling MTAs, lapses, cancellations and renewals.

Statistics collected by Polaris from its member Insurers found that 95% of Motor New Business and 79% for Household New Business was being transacted via EDI in 2010. While the use of EDI is regarded by many as a legacy and attempts to expand its use to the commercial market place have proved largely unsuccessful, there is very much a view in the market of "if it ain't broke, don't fix it", and it is likely that EDI will be around for some time to come.

The problems with EDI

The area where EDI causes the most problems is in its integration to newer technologies. New start-ups using the latest Web-services and cloud technology struggle to make their systems talk to EDI and often need help to bridge the gap. Moreover some of the latest underwriting and rating platforms have no EDI interface and it is often necessary to perform some translation between the standard EDI message and its XML equivalent, or indeed to the lowest common denominator such as a flat file or .csv.



3. The insurance supply chain

Let us consider that there are two key aspects to an Insurance product. The first is taking on the initial risk and the second is managing the risk for the duration of the policy. The software houses and, more recently, the aggregators and comparison sites, have traditionally priced a product based on risk information provided by the prospective policyholder and static rating tables that are provided by the underwriter.

Coping with rating enrichment sources

As the market becomes increasingly volatile, new technologies make it easier for the customer to shop around, and combined ratios increase, insurers are increasingly looking for ways to manage rating factors more dynamically at point-of-sale and to use additional rating factors from other sources to enhance the rating process. The latter often requires links to third parties be they industry organisations, like the DVLA who hold vehicle and driver information, or companies like Experian and CRIF who hold Claims history data for motor, household and personal injury in the CUE databases, or companies that hold details of financial history and HP agreements.

These rating “enrichment” sources will require connections and data exchange processes to be put in place that are generally dictated by the owner of the “enrichment” data. Additionally some insurers will look to a partner to provide Premium Finance to their customer and will need to exchange the relevant proposer and payment information to set this up. Finally, a requirement which reflects the world we live in is that imposed on the insurer when taking on a new risk to ensure that potential customer or policyholder is not on the HM Treasury Sanctions List.

Managing the risk

In terms of managing the risk, there are again a number of requirements to link to external data repositories. For motor insurance the Insurance industry has an obligation to maintain the detail held by the MIB in their MID database. The recent CIE initiative and ever increasing targets make this a key focus for Insurers.

The main management process that surrounds a risk is the handling of claims. The claims process itself can be very complex and require the involvement of many third parties. Many companies rely on an external company to handle the initial claim, or FNOL, process, while some companies will outsource the whole claims operation, which will require the transfer of claims notification and claims data back to the Insurer as input to the underwriting process. Once a claim has been accepted and depending on the nature of the risk, there could be an exchange of data with motor windscreen and repairer networks, property repairers and evaluators, and even medical organisations. Regulatory requirements surrounding the claims process can require links to the MoJ, the DWP Claims Recovery Unit (CRU) and finally back to CUE.



4. Why re-invent the wheel?

For every third party connection and every exchange of data there will be a set of standards which dictate the way the connection is configured and how the data should be formatted. While often very similar, invariably, each partner will have a different set of requirements that need to be adhered to and an organisation will find themselves forever developing in-house solutions to make new connections and to reformat data as it leaves and enters the data silo. This process of continually re-inventing the wheel can put big financial demands on an organisation and can waste resources which could be better spent on other projects. Moreover they add a vast complexity to an already complex business, with different procedures needed to exchange data with every partner and each with a different set of support issues.

Often the development effort can outweigh the benefits and this can lead an organisation to fall back on low cost alternatives such as the use of the all pervasive e-mail system or even the office fax machine. While these short-cuts achieve the desired result at the right costs, they are open to error as often data will need to be re-keyed, often more than once. They also bypass the internal IT processes which are the very areas where companies are focussing their efforts to achieve governance in areas such as Solvency II. As a result they are not auditable or covered by any business continuity or disaster recovery plans.

The situation is not dissimilar to that which prevailed when the PC first arrived on the desk, when areas of the business took it on themselves to solve business problems by writing their own solutions in Excel and Access. It was only when companies looked at consolidating services and their business continuity exposure that the back-door solutions came to light and had to be brought in line.



5. The DR headache

Perhaps one of the biggest issues that IT departments face with an ever growing number of third party connections is that of Disaster Recovery (DR). While the move away from permanent connections and dial-up and the growing use of Internet technologies has simplified the issue in terms of connectivity, many of these B2B connections have their own set of requirements in terms of software.

The implementation, configuration, support and licensing of software for a DR site can be a big overhead in provisioning such services. The restoration of internal networks and applications is usually a streamlined process within a DR test plan, while recreating third party links and testing connectivity can often take longer than rebuilding the in-house systems and is often bypassed during DR testing for this very reason.



6. The solution

The solution to all of these problems is mediation. In simple terms by putting something between the organisation, albeit an Insurer, an Intermediary, an MGA , an aggregator or Software House, which links to them using a single connection and exchanges data with them in a format that they understand, you immediately take away the headache of reinventing the wheel and managing your business continuity for external links. It then becomes the responsibility of the mediation service to communicate with the partners, be they brokers, industry bodies, government agencies or service providers, using the communication method that they mandate and by translating the data to and from their required format.

No longer does the partner dictate to the customer and vice-versa. Essentially what you have is a B2B hub that handles all your third party connections and data formatting issues. Having such a platform makes it cost-effective to implement e-trading processes with those partners, who, while they are a very valuable source of revenue, only need to exchange relatively small volumes of data for an organisation to conduct business with them. As a result all third party links become standardised, auditable and managed.

Managed Gateway for Insurance

The Orbit UK solution to managing the insurance supply chain is our Managed Gateway for Insurance platform. It enables insurance businesses to consolidate all of their EDI data feeds onto a single platform, via one secure connection and under a single contract. It also provides a platform on which they can implement:

- New products and services
- Channels that utilise more contemporary technologies such as XML and Web services
- Support for Polaris EDI standards
- Direct connectivity options - FTP, SFTP, HTTPS

[For more information click here.](#)