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The Case for a Stand-alone Rating Engine for Insurance

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Executive Overview

Insurers today are faced with many challenges such as competitive pressures, IT systems that are aging, and inefficient business processes that make it harder to achieve profitable growth. Among the processes that carriers can focus on, rating is arguably the most critical and can have the most visible effects. Rating impacts revenue, is fundamental to new product offerings and is the cornerstone of carriers' competitive differentiation.

Carriers that decide to modernize their rating technology are facing a complicated decision whether certain functionality is best operated as a separate, best-of-breed system, or whether current systems can be adapted or expanded to include new functionality.

The following white paper describes the benefits of utilizing a stand-alone rating solution such as Oracle Insurance Insbridge Enterprise Rating. Carriers that utilize stand-alone rating solution are architecturally more flexible and can handle more advanced rating methodologies compared to those that use rating technology embedded in a policy administration system (both legacy and newer systems). The advanced capabilities of a stand-alone rating solution can create a distinct competitive advantage for carriers.

Rating Is a Critical Component to Carriers' Success

Carriers today are faced with highly competitive conditions in the marketplace that drive them to look for ways to increase revenue and reduce costs. One of the areas that carriers can focus on is product management because it can impact both revenue and cost. Carriers that can create unique products and rating programs can increase revenue. At the same time, they can also reduce cost by simplifying their rating management process.

Most carriers are still operating with older policy admin systems that embed rating logic within the code. This makes it difficult to modify and maintain rates. It is also difficult to integrate with other systems and make it very dependent on IT support. To make matter worse, carriers usually run multiple policy administration systems, web quoting systems, and comparative raters that have their own rate system. Carriers end up with data redundancy, inaccuracies, and duplication of efforts as rating changes are implemented in multiple solutions. Product and rating management becomes very expensive.

Benefits of Externalizing the Rating Logic

Externalizing the rates, rules and logic associated with rating from multiple systems and putting it in a single repository will help carriers reduce cost. Additionally, utilizing an external rating engine makes it easier for a business user to maintain the business logic. Rates can be built once and distributed to any application, a process which allows carriers to achieve many benefits such as:

» Speed – updates to rating logic can be made by users with minimal support from IT, dramatically simplifying and speeding up the rate change process. Rating changes can be done in hours or days instead of weeks or months.

» Accuracy – an external rating engine provides features that allow carriers to do multi-tiered rating, pay as you go and unique discounts that improve accuracy and allow carriers to use creative rating to better differentiate themselves in the marketplace.

» Consistency – by centralizing the rating process, carriers can ensure consistency of rating across all customer interactions.

Best of Breed or Best of Suites

Now that we see the benefits of externalizing the rating logic in a single repository, the next question is whether carriers should use the rating system that comes with the new policy administration system (PAS) or they should invest in a separate stand-alone rating solution?

The choice between a stand-alone rating solution and a rating system embedded in PAS really depends on what the carrier want to accomplish. It the carrier wants to introduce complex products with multi-tier rating to differentiate their offering in the market then a stand-alone rating solution with its advanced features is more appropriate. Whereas, if products are simple and generally standard, a PAS may deliver all the functionality required.

Additionally, it also depends on what the carrier's competitors are doing in the market. If the competitors are aggressive and regularly introduce many new products, then it is better for the carrier to have systems that are easy to use and can deliver products to market faster. A stand-alone rating solution can help carrier's speed to market and build competitive advantage.

Finally, carriers also need to look at their own architecture. A stand-alone rating solution delivers a cleaner and more flexible architecture where rating rules and logic are centralized in one place and other systems can access it through standard integration. In summary, as product complexity and competition increase, the power and breadth of a stand-alone rating solution is far superior to that provided by PAS vendors.

Stand-alone Rating Solution Features

Oracle Insurance Insbridge Enterprise Rating is a stand-alone rating solution that provides the following advanced features not often found in legacy policy administration systems or even in more modern policy administration systems with rating technology built in:

Multiple Lines of Businesses Support

Oracle Insurance Insbridge is designed to handle multiline, multi-state and multi-location rating. Its methodology not only promotes accuracy, but relieves the maintenance and resource burden on managing multiple rating engines for each line. No longer will you need a separate system for E&S lines, non-standard lines, or personal versus commercial lines and no longer will rates need to be updated in multiple locations, which can lead to costly errors.

Ease of Use

Oracle Insurance Insbridge helps carriers in delivering the products to market faster. It has an easier to use interface that enables users to learn the system quickly and use it more efficiently. Oracle Insurance Insbridge allows users to design rate plans with point and click mouse movements. Algorithm steps can be built and their order rearranged by dragging items across a screen. Changes are managed by the business users and can be performed in minutes, and then propagated throughout the enterprise. This greatly reduces the time required to make rating changes, as well as reducing maintenance efforts and reliance on the IT department. The system is flexible for a unique, out-of-the-box rating solution that can help carriers deliver products to market faster. Because the authoring environment is separate from the run-time engine, users can create and test, while not impacting the production of the rating

engine. What's more, multiple rating environments can be created in order to give actuaries a "sand box" separate from the production authoring environment.

Any-Method Rate Creation

Policy administration systems with rating capabilities can lack the flexibility to allow business users to not only create rates but also define their method of rate creation. Pre-packaged and industry-driven (ISO) templates provide a great start to creating rates. However, customization to these rates can be difficult and cumbersome when new updates to the templates are issued.

Also, many insurers have complex, non-standard, non-admitted lines of business, including Excess and Surplus (E&S) lines, which require complete customization of rates. Functionality to develop these lines is limited in policy administration systems and can take a tremendous resource effort to develop.

Oracle Insurance Insbridge not only provides the ability for a carrier to create customizable templates but the ability to create the entire line structure of new programs. From table and logic creation to defining the rating hierarchy, business users have complete control. The system is flexible for unique, out-of-the-box rating.

Infinite Rating Tiers

Rating tiers classify insureds and allow an insurance carrier to develop specific risk factors that can theoretically increase or decrease an insured's premium. In the past, insurers have segmented their business into just one to four tiers, but with the emergence of agile carriers, companies are classifying their insured into 10, 20, and even 50 tiers.

The most realized benefit in assigning customers to very defined and granular tiers is that insurers can not only accept more risk but they can price that risk accordingly. For example, an auto insurer might not previously have written red sports cars for teenagers under the age of 18, but by identifying these risk factors, the carrier can create a higher-rated tier that accounts for these risks, thus raising the premium.

Oracle Insurance Insbridge allows companies to create infinite rating tiers across all lines and states. Additionally, maintaining and organizing these tiers is easy from a single, extracted system.

Advanced Logic

Beyond traditional rating methodologies and product development, Oracle Insurance Insbridge has the ability to perform advanced logic often not achieved within a policy administration system. Examples include:

- » Driver assignment – configure intricate driver assignment rating attributes, including those mandated by state insurance departments. Common driver assignment criteria including average driver, highest-to-highest driver-vehicle, and each company's own unique driver assignments
- » Arrays – the ability to create looping mechanisms or multiple calculations on the same set of data with distinct criteria. Also, Oracle Insurance Insbridge has the ability to rank or sort these arrays
- » Messaging – custom messages and data information such as stat codes, agent messages, codes sent to billing and document management
- » Form rules
- » Package products – the ability to combine multiple lines, such as personal and commercial, into a single product.
- » Date calculations – performing rate calculations based on such criteria as versions/effective date logic or anniversary dates.
- » Multi-state policies – the ability to create rates for policies that span more than one state with different rating criteria.

Regulatory and Compliance

The ability to adhere to industry compliance through such means as audit trails is an important part of an enterprise quality application and an insurance carrier's compliance strategy. If a rating engine is embedded within its policy administration system, detailed rating reports are difficult to isolate and create.

Oracle Insurance Insbridge is completely self-documenting and creates a detailed audit trail of all rate creation, rate changes, and versioning. These reports aid in both Sarbanes-Oxley and regulatory compliance, easing the burden on carriers, while promoting accurate reports.

Versioning

Tracking multiple product versions is not only important for rate change history and documentation, but also a necessary part of compliance. Oracle Insurance Insbridge supports product versioning for maintenance and management of multiple product versions per line of business and state. With a single rating engine, it is easy to identify the latest version of a rating program versus multiple versions among several systems.

Role-Based Security

While design-time security is a common aspect of most policy administration systems, when rating is embedded it is difficult to segment a rating user versus a policy user. Because these roles reside in very different areas of the organization, defining the roles inside the system can be cumbersome and not easy to change or manipulate. Business-side roles such as actuaries, underwriters and business analysts are associated with the rating engine, while IT traditionally is the main designer of the policy administration system. This is another important compliance feature: by centralizing rating to a single rating engine, role-based security can be dissected and as detailed as necessary. Business users, rating analyst, actuaries, underwriters, IT and quality assurance can all have defined privileges.

Debugging and Testing Reports

Legacy policy administration systems often lack the technology to thoroughly debug rates. Oracle Insurance Insbridge allows business users to test and debug rates as they build them. The debugging reports show every detail of logic used to create a rate, thus allowing a user to identify errors and areas of to tweak and refine. Examples of details in the reports include rate tables, form lookup rules, premium calculations, and more. Not only does this improve rating accuracy but also can be useful in identifying rate details for compliance information.

Modeling Tools

The modeling tool inside Oracle Insurance Insbridge is called Impact Analysis and it allows carriers to test the new rating models against a book of business to see the impact they will have in terms of revenue and potential risk. Carrier can model a rule and run it—and remodel and rerun as needed—to determine the impact before moving forward.

Using impact analysis, carriers can test the new rating against a batch of policies or a specific policy or quote. Oracle Insurance Insbridge provides a wizard-like tool to guide users during the process. Users can see the comparison results between an existing program version and a proposed new version currently in development or they can download the data for further analysis.

Integration

Policy administration systems with rating logic hard-coded inside are difficult to integrate with other systems including Web quoting, comparative raters, third-party information vendors, carrier internal calculators, and databases. It is not only a huge services investment, but also difficult to maintain.

Oracle Insurance Insbridge is an open and Service-Oriented Architecture-based system that can easily integrate with any and all policy administration systems, along with front-end agent Web portals, aggregators and other third-party systems. Through Web Services integrations and a graphical, wizard-driven XML mapping tool, Oracle Insurance Insbridge can easily provide a system architecture with the rating engine at the core of all of the insurance administration systems.

Additionally, Oracle Insurance Insbridge utilizes an Extended Services Interface (ESI) to help manage internal administration of multiple systems. ESI is a customizable API that promotes automation and information sharing through third-party systems (Policy admin, etc) via portal integration. The ESI module enables remote services to the Insbridge business services without directly utilizing the system User Interfaces (UI).

Performance

If a carrier exposes its policy administration system to a Web portal, the volume of users hitting this system impacts performance. This is especially true when rating is embedded. With Oracle Insurance Insbridge as a stand-alone rating engine, rating users will not be impacted by system inefficiencies and scalability issues. Carriers can have multiple run-time engines and mix and match how they are used without affecting the design-time engine (i.e., engines for renewal versus new business, engines for .NET versus Java, etc). These rating engines can then be exposed to the Web to avoid the high transaction levels of the policy administration system.

Scalability

For large tier-1 customers that write millions of policies a year, performance and scalability of their rating system are the most important factors to deciding in which rating system to invest. The increasing volumes of policies provide a unique challenge to IT organizations within the enterprise. The technology infrastructure not only needs to meet the current performance requirements but also must continue to scale seamlessly as the business demand grows. This is where the Oracle Insurance Insbridge solution has proven to be the clear performance and scalability leader. Oracle insurance customers use our rating solution in most demanding environments such as the use of thousands of inputs, calculated variables, algorithm and millions rows of table to come up with the right rating. Our customers have continued to build and expand their implementation to other lines of business, which shows that they are confident that the product can support their growing business.

Conclusion

Product and rating management are critical functions impacting carrier's revenue and operational efficiency. Carriers should be looking to modernize and consolidate their rating systems to stay competitive. While many modern policy administration solutions include rating engines within them, none of the PAS solutions can match the depth and breadth of a stand-alone rating solution. A stand-alone rating engine, such as Oracle Insurance Insbridge Enterprise Rating, offers new functionality and significant speed-to-market benefits that legacy systems or rating system embedded in new PAS can't match. Through its advanced rating features as well as its open and integrated architecture, Oracle Insurance Insbridge can quickly consolidate and modernize a carriers' rating strategy. This will position carriers with a more agile business, reduce total cost of ownership, speed time to market and improve distribution management.

The Oracle Insurance consulting services team can evaluate a carrier's current rating system, formulate a transition plan and execute the migration to Oracle Insurance Insbridge based on its unique needs. Learn how your company can experience the benefits of deploying a modern and powerful stand-alone rating engine – and differentiate from the competition. Contact us today at insurance_ww@oracle.com or 1.800.736.6620, or visit oracle.com/insurance to find out more about Oracle Insurance.

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