BENEFITS

Look Into The Future And Prepare!

By: Richard Sirois

The IBM Institute for Business Value Study came out with a report titled 'Insurance 2020: Innovating beyond old models.' Dated May 23, 2006, it presented the ideal model for managing employee benefits. This collaborative, open, client-centric, web model will allow major simplification of processes and cost reduction. The report foresees that by 2020, the industry will have moved into this new model. We fully endorse their conclusions and vision as we came to the same conclusion back in 2000.

The IBM analysis identified large-scale trends that will likely confront insurers in the year 2020:

- Active and informed consumers across demographic groups will reward non-traditional operators
- Technology virtualizes the value chain and will lower barriers to entry
- Innovation will be required
- Old modes of thinking will threaten the industry's ability to innovate
- Interlopers will increasingly disrupt traditional insurance operations
- Industry leadership will require experimentation in operating models, processes, products, and customer relationships
- Strategic investment in innovation today is critical to success in 2020

To better understand the need for change, all we need to do is explore the current business processes.

Complex Web

The insurance industry is a complex web of participants trying to interact together. Roughly, we could estimate there are some 20 to 50 carriers, 5,000 advisors/actuaries, 125,000 enterprises, hundreds of payroll or HR systems, hundreds of thousands of health service providers, and some 15 million insured Canadians.

The problem compounds because most of these participants operate in silos which means they have to re-invent their own electronic processes. Most manage independent databases and use different formats and methods to share information. To make things even worse, some are based on old legacy technologies that are stretched to the limit and cannot adapt to the new realities.

If we want to tag a cost for managing this current insured model, we can estimate it to be between 15 per cent and 40 per cent of premiums. Using a median 20 per cent of annual Canadian premiums of $25 billion, this means more than $5 billion is spent every year for management only. This represents some $150 to $500 per insured every year.

"To develop new business and operational models, companies must encourage experimentation and establish a rugged, but not too rigid, process for innovation," says IBM's '2004 Global Innovation Outlook.' It established the following innovation lessons from this initiative:

- ◆ Innovation is increasingly open, collaborative, multi-disciplinary, and global
- ◆ New business designs are emerging that thrive on collaborative innovation
- ◆ The world evolves around the primacy of the individual

These concepts can help form the basis of an innovation plan for a company that is committed to achieving more than just optimization.

Working In Silos

In layman terms, IBM recognizes that current insurance technologies are 'closed, isolated, and product centric.' Most participants are working in silos, re-inventing the wheel and sharing access to information within the organization or with clients only.

The new model needs to look at Web 2.0 trends where the consumer/participant can access, share, and collaborate to drive the evolution of the information. Web services – Wikipedia, YOUtube, social networks, blogs, and many other community services – are not a fad, but a major trend. Consumers, whether individual or corporate, want to be in on the action. They want to share responsibilities, be part of the decision-making, and get access to the information when they need it.

The insurance industry is no different. Consumers want to buy the right insurance service, they want to understand the costs and products, and be able to access the right information when they need it. Insurance information will need to move from product-centric to client-centric which is open and has universal access.

My personal vision is that the solution to group benefits management needs to mimic what the ATM revolution did to banking.

Here is my blueprint for a universal, client-centric, collaborative web that guarantees group benefits insurance savings by simplifying the management processes to perfectly reflect the new model of businesses proposed by IBM.

Centre Of Our Solar System

Graphic-wise, we will replace the complex web model of the current inefficient model by one that becomes central to the client. The 'C' – standing for client, collaborative, and centric – becomes the centre of our solar system. The beauty of this model is that the client can be any participant – carrier, sponsor, advisor, health service or product provider, members, etc. The client is the owner of the information and he is the one that decides and invites the other participants. Every participant becomes an active part of this collaborative solution. Each will have a controlled access to share and make contributions based on their unique 'role(s)' and 'rights.' There is one single platform, one single database, and each participant will access the information within a customized and optimized interface.

It is easy to understand how this new model will allow major simplification of processes and cost reduction. Although I am proud to say that such technology exists today in very limited numbers, IBM foresees that it may take up to year 2020 for every participant of the industry to have moved into this new model.

Why will it take 12 years to get there? Most will wait because we are conservative. We accept pain and punishment because we are familiar with them. For most carriers and major industry participants, the question is: why rock the boat? After all, as long as the sponsors will continue to foot the bill, why take the risk of changes?

"The problem is that we are now in an era in which technology can transcend nagging industry problems and change the game," says IBM, and early adopters will get the early benefits of the change while putting pressure on the others.

To become the clients of such a model, one will need to be a medium to large sponsor, professional advisor/actuary, TPA/TPP, and/or carrier. The smaller sponsors (under 150 members), as well as any other participant with limited group benefit expertise, should access this platform through a qualified and certified professional advisor/actuary, TPA/TPP, or carrier.

Truly Universal

To be truly universal, this platform needs to provide access to all the needed services:

- ◆ administrative tools to insure billing as well as employer/employee contributions
- ◆ links with HR or payroll services
- ◆ claims management and automatic adjudication services
- ◆ tools to simplify market evaluation

This model could allow sponsors to recuperate some 50 per cent of these expenses.

The solution is evident and obvious. However, to get the new model going, you might need to get involved, unless you enjoy being part of inefficiency. ■

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