



SOCIETY OF ACTUARIES

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Technology Will Level the Playing Field

by Tim Pease

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The third major transformation of the insurance industry has begun, and over the next decade everything will change.

Innovative companies will grow as they adopt new ways to boost service levels at lower costs. The mergers, acquisitions and blending of roles we've already seen will accelerate. By 2010, the business landscape will be very different.

The advent of true network-based computing is driving this transformation. Using all types of networks—the Internet, intranets, extranets, LANs and WANs—network-based computing brings processing power to the point of service, anytime, anyplace.

This ability will level the playing field between all competitors. With the right technology and strategy, any company—whether an independent agency, insurer, reinsurer, direct market or direct writer—can win in the new game.

The industry has been transformed only twice before. First, in the late 1800s, insurance companies hired managing general agencies to support their expansion in the newly opened West. The second transformation was the direct writers' rise to personal line dominance.

After the next transformation, the battle line will be drawn between technologically savvy, efficient players and those with outdated technology.

The following are key issues. First, insurers need network-based computing power at the point of service. The banking industry is ahead of the insurance industry in customer service, because it has long used networked-based computing. ATMs are a prime example. Banks let their customers pay bills and view balances by touch-tone telephone and on the Web. Insurers don't let customers or agents have similar access to policy information—but fairly soon they will.

The advent of client/server networks (LANs and WANs) has brought the insurance industry to the first phase of

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From the Editor

by James R. Thompson

This issue commemorates the 50th Anniversary of the Society of Actuaries. We usually publish in November so that we can get the latest updates from the September NAIC meetings. Regulation has been a significant factor affecting smaller companies, and we endeavor to follow it closely.

However, we felt that this issue should be in your hands prior to the annual meeting.

To give broad perspectives on the past and future of our industry and Smaller Insurance Company Section, each past Section chair was invited to submit an article giving his thoughts. To show what we are doing now, we are including our contributions to the annual meeting.

Technology continues to be an important tool for improvement. Large companies have the resources to examine how such improvements as computer technology and the Internet can improve operations and sales. Smaller companies do not have that, but such companies often can benefit the most from expense

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Reflections on 1991

by Robert Dreyer

The year was 1991. The venue was the Annual Meeting in Toronto. The setting was a panel discussion on "Gearing Up to Be Appointed Actuaries" chaired by the new President-Elect Walt Rugland. An observation was made that becoming the Appointed Actuary for a small company was a daunting task and that the existence of a special interest Section specializing in smaller company concerns might prove quite useful to many of our members. Walt's response was "If you really think so, why don't you start one?"

The following spring, at the Chief Actuaries Forum, John O'Sullivan and I, recalling Walt's challenge, discussed just what would be needed to start a new Section. After a review of the process outlined in the *Yearbook*, we agreed to take the first step and see if we could find enough support to form an Organizing Committee. The rest is history.

The challenge of becoming Appointed Actuaries proved to be only the tip of the iceberg for smaller company actuaries. (It wasn't very easy for large company actuaries, either, but they had more resources they could apply to the problem.) In the next few years, that challenge has been followed by illustrations, RBC, XXX, ZZZ, a new array of investment-oriented products, a vastly more competitive term market, and now, the prospect of radical changes to the way we calculate reserve and asset values for our certification. Each of these has placed a heavy burden on actuaries and their companies, particularly the need to research and develop new procedures.

Since 1991, my company's actuarial staff has tripled. Without the support of the Smaller Insurance Company Section and the individual members of the Section who participated and shared their experiences, who knows how many more actuaries and support staff we might have needed. I am sure most smaller companies have gone through a similar process with

regard to each of those challenges that affected them directly.

Inter-member communication of this type was a primary reason why the Section was started, and I think Jim Thompson's efforts as editor of *small talk* were a most significant coordinating factor.

Some people, both members and non-members, have suggested that the Smaller Insurance Company Section should get more involved in research. While I understand their reasoning, I have never seen this as a primary objective. We tried many times over the early years to identify research projects of a scope that was specifically applicable to smaller companies, and we kept coming up dry. In my opinion, the far greater need is for the communication of ideas and approaches that can be used by smaller company actuaries who lack the resources to identify or refine simplified methods or techniques. This will come more from expanded involvement by the Section members and the sharing of their ideas, than from pure financed research. And to accomplish this, we need more volunteers, more participation, and more ideas.

I have played that tune so many times in the past that I must sound like the proverbial broken record. However, I am thankful to *small talk* and the Section Council for the invitation to play it again. As we celebrate the 50th anniversary of the Society of Actuaries, I wish the Smaller Insurance Company Section a most successful future, one that each of you has a wonderful opportunity to help ensure.

Robert Dreyer, FSA, was the 1993-94 chair of the Smaller Insurance Company Section. He is senior vice president & chief actuary at Erie Family Life Insurance Company in Erie, PA. He can be reached at Robert.Dreyer@reinsurance.com.



Technology Will Level the Playing Field

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network-based computing. Insurers using client/ server networks for their enterprise systems have gotten the jump on competitors.

Now comes the next phase of network-based computing, the Internet. With Internet-enabled systems, participants at remote locations—agents and branch offices—can log onto a Web site, access the insurer's system and produce quotes and issue policies on the spot.

Insurers must also be able to support multiple and blended distribution systems equally well. In the future, most insurers will use multiple systems, and they'll need flexible information systems to support them.

However, most mainframe policy systems were designed to support only one distribution system. As a result, companies with multiple distribution channels have needed more than one policy system—a cumbersome, expensive arrangement. Having a single, flexible system gives an insurer cost and strategic advantages. With a sufficiently flexible computer system, an insurer can plug in a new distribution system with little delay or extra expense.

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