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REINVENTING THE LIFE INDUSTRY

Navigating the technology course

By Ronald J. Helow

Back in ancient times — say, 20 years ago — technology didn't really make that much difference for one insurer over another. Sure, technology was expensive, but everyone spent relatively comparable amounts. We bought mostly similar policy administration and support software from a small number of mostly similar vendors. Technology was a defensive tool, used to control expenses. There was little competitive difference between the best and average users of technology. Policyholders couldn't tell. Agents couldn't tell. Products were simple, and it took everyone about the same length of time to introduce new ones.

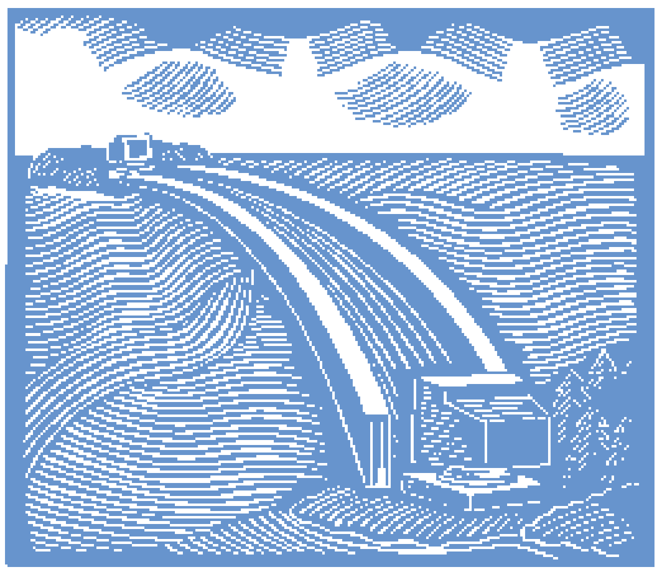
In the future even more than today, the pace of change will increase as will the complexity of products and the impact of competition and regulation. Innovative use of technology will be a key differentiator for success and maybe even survival. Technology will switch from defensive to offensive tool, aimed principally at driving revenues.

How will successful leaders in the insurance industry use technology in the future?

Learn from others

The American Airlines reservation system was the first successful online business system. Yet it was more than 10 years before online systems were widely applied to the insurance industry. Today's insurance company leaders must prevent a similar time lag in capitalizing on technology innovation.

Since our industry increasingly depends on investment products for growth, the technology deployed today in the securities business is what insurers will need tomorrow. Companies like Schwab have made massive investments in technology to remove friction from their interactions with prospects and customers. A large and rapidly growing part of their sales and service transactions occur online. People are available for complex activities that require expert assistance and for customers who prefer human interaction. This will be the operational model in the future — not because we want it, but because consumers will demand it.



In today's world, the speedy are rewarded and the laggards are swiftly punished. The top technology companies are probably the best in the world at managing rapid change. Future leading insurance companies will examine them closely and adopt their managerial and organizational techniques. The most important concepts will be fluid, project-based structures rather than rigid hierarchies based on function and line of business.

Focus only on what's critical

The cheapest and fastest technology implementation is the one you don't have to do. Expect to see the steady decline of vertical integration; it's just too expensive and time consuming to integrate systems everywhere throughout the value chain. An example is the mortgage industry. Once fully integrated, it is now split into originating companies, servicing companies, and organizations that securitize debt. Each uses highly specialized technologies.

The growing sophistication of financial services will require huge investments in technology to remain competitive. However, few, if any, companies will have the combination of financial resources and technological expertise necessary to competitively manufacture, distribute, and service a complete insurance and investment portfolio. Bank of America sold a major part of its trust operation rather than make an estimated $500-million systems investment. Insurance companies will be forced to choose where in the value chain they can most successfully compete and will concentrate their investments there. They will need to decide what activities to outsource, virtually all of which are now provided in-house without question as to time-to-market or expense considerations. While operational outsourcing is today a mostly failed experiment, viable alternatives will emerge in the future.

Exploit major technology opportunities

The Internet has spawned by far the most important future technology direction. It is impossible to overstate the impact this will have on the insurance industry, allowing a much closer link with customers, prospects, and distribution systems. For an industry whose major connection with its clients has been taking blood tests and presenting bills, this is a truly golden opportunity.

While products will be sold over the Web, this will happen slowly. However, a rapidly growing group of our prospects and customers with ideal demographics will prefer to conduct their own research and, whenever possible, to execute service transactions directly via the Web.

Your distributors will expect you to provide a fully electronic communications path. They will demand account values, new business and compensation status, service transactions, product information, training, and expert assistance in electronic formats convenient to them. Companies that fail to do this will be perceived as backward and lose ground.

The incredible popularity of the Internet will have an unanticipated benefit. Technology vendors, rushing to make their products compatible with Internet technologies, will inadvertently become compatible with one another — a sort of "technology peace dividend." This will bring us closer than we've ever been to universal standards and will ease interoperability problems.

Other important trends will be the huge and growing shortfall of talented technical personnel and the movement from packaged software toward collections of components. It will be essential to understand the implications of these directions and to plan accordingly.

Investment in technology: manage it like a portfolio

Business can no longer afford costly technology failures. In the future, technology will be managed more like a venture capital portfolio. Projects will compete for resources, with the best receiving small initial funding. Promising projects will be rewarded with later-stage funding, while others will be ruthlessly stopped. Investment criteria will be based on the likelihood of achieving business goals and return on capital rather than on political clout. Successful information technology organizations will adjust accordingly, becoming business consultants and systems integrators rather than just technology manufacturers.

High stakes

The forecast seems almost contradictory. Technology will become a tool for offensive moves, yet acquiring the right technology is necessary and so is, in a sense, defensive. Competence in today's hot technologies is tomorrow's table stakes — necessary just to get into the game — and failing to do so creates high-stakes risks. Tomorrow's leaders will successfully navigate these contradictions and realize that investment in technology is a continuous process, essential for those who are playing to win.

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SOA board approves new Section

The SOA Board of Governors has approved the petition and bylaws for a new special interest Section, the Management and Personal Development Section. At least 200 SOA members must join the Section before it has the authority to officially organize.

The Section's mission is to plan, implement, and actively promote management and business skill development for members, using a variety of channels, including:

- Seminars, workshops, panel discussions, and teaching sessions at the SOA's spring and annual meetings
- Articles in *The Actuary* under "The Complete Actuary" banner
- Resource materials, such as *The Actuary's Career Planner*, the "Actuarial Competencies" guide, and specialty guides for members

The key objectives of the Section will be to:

- Provide results-oriented skills and knowledge for current and developing managers.
- Build a bridge from technical knowledge to decision-making and its implementation.
- Develop educational opportunities and provide resources for all actuaries who strive to become more effective managing members of their business organizations.
- Provide tools to facilitate personal career development.
- Offer opportunities for managers to network, enhance management practice, and experience professional feedback.

The Section will support all actuaries who can benefit from management development into the 21st century and beyond. Additional information on the new Section and membership dues can be found in inserts in the May and June issues of *The Actuary*. For more information, contact Michael Braunstein, organizing committee member (phone: 860 / 521-7459; e-mail: *aar@home.net*), or Sheri Abel at the SOA office (phone: 847 / 706-3536; fax: 847 / 706-3599; e-mail: *sabel@soa.org*).