

WHITE PAPER

Effective Process Automation in Retail Financial Services

Paper 2: Providing Insurers with a compelling ROI
on Process re-engineering through the use of
'Electronic Document Initiation'

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I Introduction

Insurance companies are under huge pressure to adapt to ever evolving market conditions. Pressure on revenue growth and cost reduction is intense. This is leading the more dynamic companies to respond with investment in new electronic automation processes and systems to streamline their activities and enhance customer service. These investment programmes are often substantial and need careful business case and cost justification in order to get sign off.

It is the contention of this whitepaper that many of the proposed electronic processes trying to get sign off struggle because they fail to fully identify and evaluate the full benefits of process improvement, which in turn delivers cost savings and better customer service.

This whitepaper explores the 'Electronic Documentation Initiation' process, looking at effective ways of addressing this opportunity and how it can benefit insurance companies, including a case study of a company that has successfully addressed this issue and realised tangible benefits as a result.

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2 Industry Background

The Insurance world has faced a barrage of change over the past decade. Competitive activity has been intense with several new overseas' entrants, electronic start-ups and specialist niche players all challenging the established operators.

Meanwhile the Regulator extended its reach, both in market coverage and that of products too, flexing its muscles along the way with several high profile fines. The application of regulation and the need for companies to demonstrate compliance now includes General Insurance and Mortgage products, all of which has an increased cost.

The Regulator also challenged the established polarised distribution models of the industry through Policy Statement PS04/27 which not only the created a new multi tied business category for distributors but also allowed ownership of distribution beyond the tied model.

These changes have accelerated market consolidation with not only companies buying competitors but also companies buying up and down the supply chain where companies have not engaged in Mergers & Acquisitions (M&A), manufacturers have still been working hard to integrate their IT systems to the business processes of the distributors in order to improve the service and business tools that they offer them.

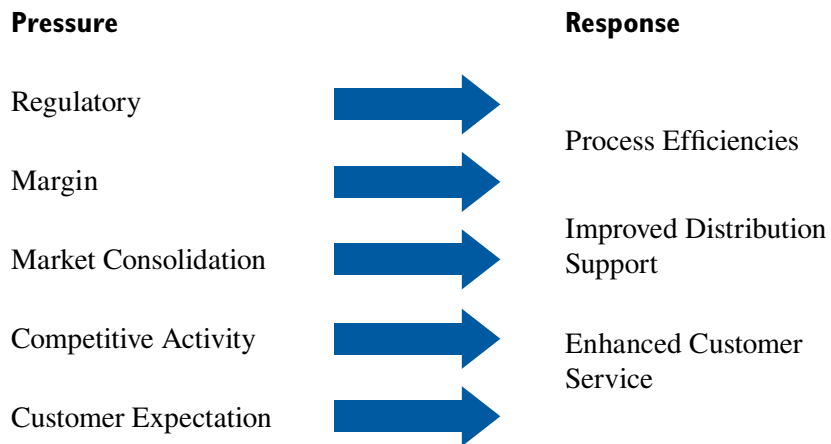


Fig. 1

3 The Insurers' response

The resilience of the insurance market and its capacity to change has always been high. Many companies are looking at investing in re-engineering systems and processes to meet the challenges they face. Some companies have made substantial investments into ensuring customer and distributor systems are efficient and responsive to maximise customer satisfaction and reduce costs. Systems being considered for investment include:

- Adding New Business functionality to their Extranets to provide distributors with the ability to submit applications for their clients electronically
- Building new administration platforms
- Re-engineering their claims process
- Enhancing their call centre infrastructure
- Providing sales tools to their distributors

However, all of the above mentioned initiatives have substantial associated costs, especially for the larger players addressing multiple projects, where costs will be counted in the tens of millions of pounds, so these system changes must deliver big results to meet any serious cost justification criteria

4 Helping to make the ROI case add up

As mentioned in the previous section the change initiatives required to address the challenges faced by insurance companies often involve considerable expenditure. Each business case needs to be thoroughly investigated. In addition, a comparison of the cost/benefits of potentially competing projects also needs to be made.

However, this is frequently because the system addresses the issues found within a process, but often fails to address how information gets into the process in the first place. If we take a closer look at the types of projects listed in the previous section we will see that all the processes have a substantial amount of interaction with parties outside of the insurance company. This interaction is in both via paper and electronic means and includes a vast number of types of documents.

“The new systems address the issues found within a process, but often fail to address how information gets into the process in the first place.”

Example Paper-Intensive Processes

General Insurance Claims:

A general Insurance claim will require a form to be completed (in paper form by the client, electronically by the client or electronically by a call centre), along with supporting evidence such as police reports, surveyors reports, photographic evidence, loss adjuster submissions etc.

Pensions New Business Application:

A new business application for a Pension would include an application/proposal form (paper based, faxed, electronic, photocopied), money launderings documentation, cheques, direct debit forms, trust forms, accompanying letters, medical reports, Inland Revenue documentation etc.

Health Insurance Claims:

While a health insurance claim will not only require all the information from a client but will also need supporting information from third parties such as one or more doctors.

Change of Client Details:

Clients will have various life events that they will need to keep the Insurer informed about. These include change of address, change of name, change of statement of intention and fund allocation. Each of these may generate an unstructured letter or the receipt of a structured form; it may even be received electronically by email for example.

What is quite clear from these examples is the format and size of the documents and communication will vary greatly. At one extreme you may have a structured life application form with the data validated and classified but consisting of 20 pages, while at the other extreme you may simply have a photograph of an accident scene. To confuse things further even when documents should be straight forward to classify, it frequently is not possible to do so. An application form may give the potential to be a structured document

but may also be virtually blank with letters and supporting documents stapled to it. Figure 2 below lists the document variants and whether they are structured, unstructured or hybrid.

“The cost of dealing with this variety of documentation (both electronic and paper based) is high and if not addressed will undoubtedly effect the ROI on any business case.”

Structured documents	Semi Structured documents	Unstructured documents
Application forms	Utility bills	Client letters
Direct debit set up forms	Driving licences	Solicitors' letters
Standing order set up forms	Passport	Photographs
Cheques	Credit documents	Doctors' letters/notes
Change of details forms	Police reports	Police incident reports
Claims form	Surveyors' reports	
Application forms	Loss adjustor submissions	
Trust forms	Medical reports	
Fund allocation	Inland revenue documents	

Fig. 2

The cost of dealing with this variety of documentation (both electronic and paper based) is high and if not addressed will undoubtedly effect the ROI on any business case. However, if this document initiation challenge is solved, the ROI improves substantially and, as in the example below, may make previously unjustifiable business cases become substantially more attractive.

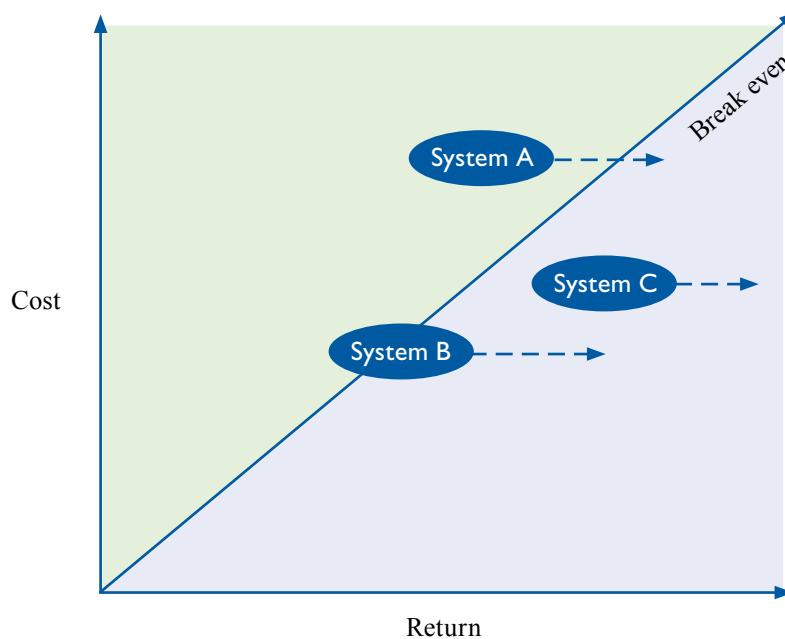


Fig. 3

5 Beyond the Digital Mailroom

Some Insurers, wise to the importance of removing paper from their processes have started to implement imaging and scanning systems. However, the implementation in itself still involves substantial manual costs. For while the process is now dealing with electronic images it still needs visual identification and human judgement for each image, with all the associated costs and risks of human intervention. Inherent within this approach is the limitation of each employee dealing with between 200 and 500 documents an hour.

We call this break in automation between the scanning of documents and getting them into the core business processes the 'Classification Chasm' and it is our contention that it is this 'Chasm' that breaks the ROI of many system implementations.

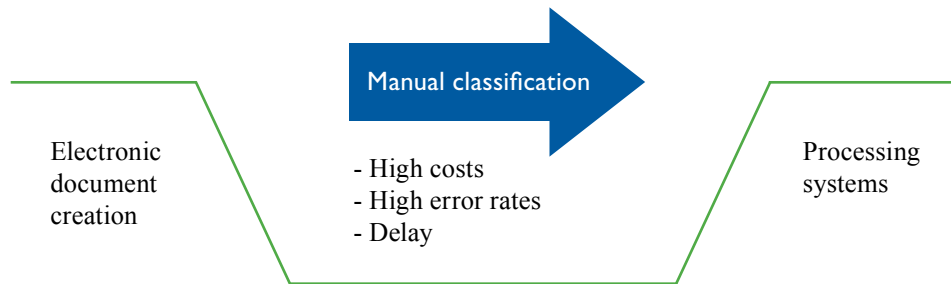


Fig 4. The Classification Chasm

The 'Classification Chasm' represents a manual exercise and effort that needs to be crossed or bridged to gain the promised benefits from the scanning and the process automation. The 'Chasm' results in extra costs in manual sorting and manual input of data i.e. indexing and the risk of miss-classification. It also represents delay as the manual process works its way through, with potential implications on customer satisfaction, fall out in applications proceeded with, delay in getting the access to the customer assets, employees' time and employee job satisfaction.

Companies such as ReadSoft can remove this manual burden; speeding up the process, increasing the accuracy, and reducing the labour costs. The process can be enhanced further, to include automatic functions such as document grouping, indexing and data extraction. Fig. 5 on the next page shows the automation of this process in practice.

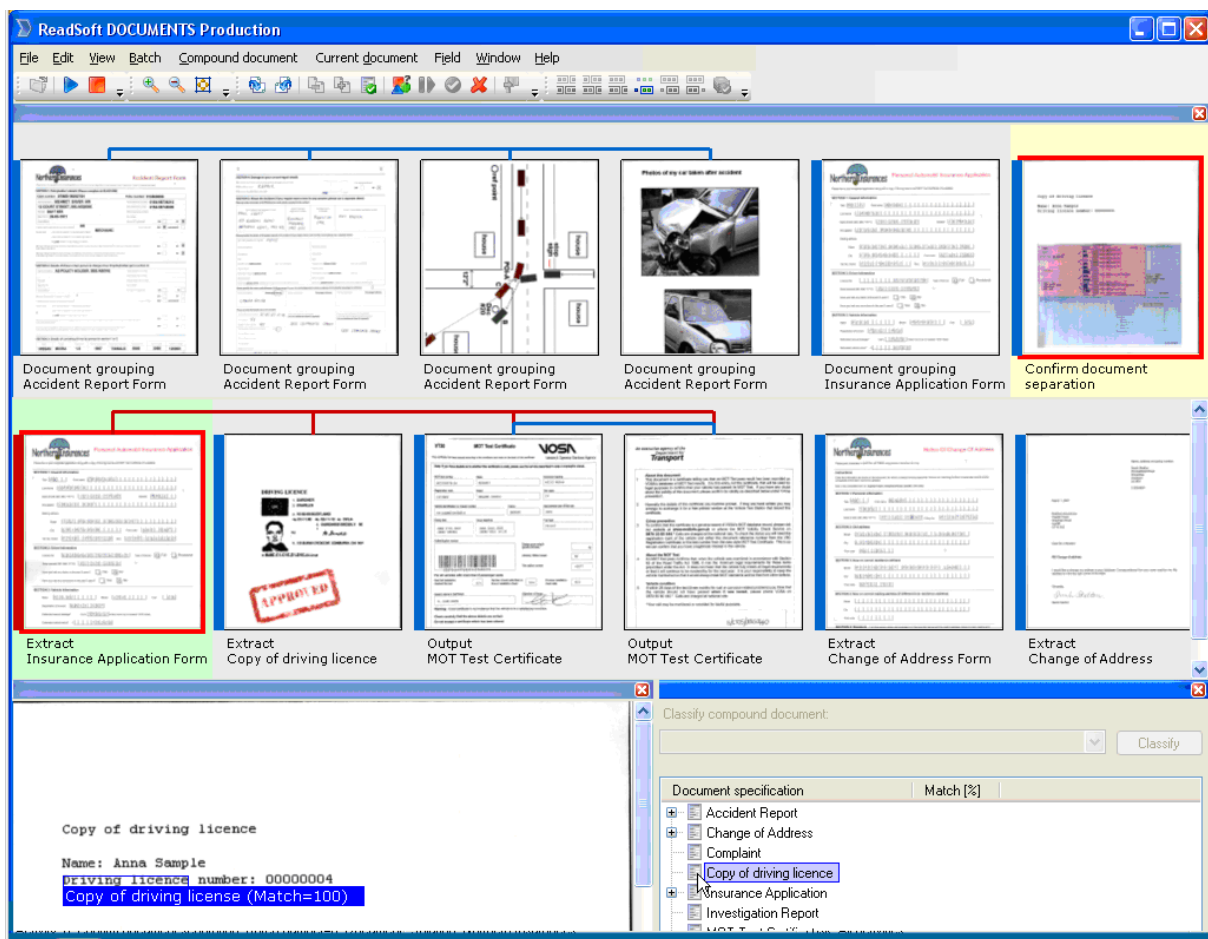


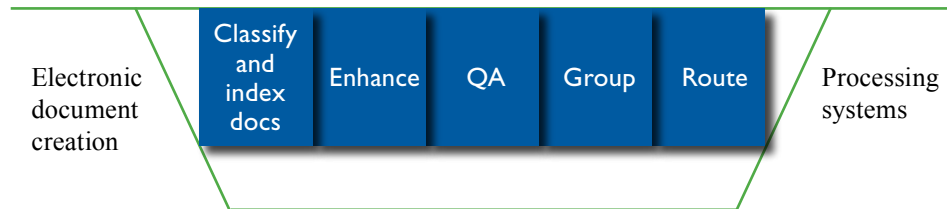
Fig. 5. The Automated Document Input

CLASSIFY & INDEX

Having documents electronically classified and indexed means the Insurers can now apply their own business rules based on document type and content (application form, letter, etc.) rather than its format (paper, email, XML file, fax, etc.). The solution can be equipped with several fast and accurate methods for classifying documents, including any appendices. Image element identification, pattern recognition and word content analysis are just a few of these methods.

The document structure is detected and preserved. The main document and any attachments are identified and treated accordingly. The on-screen workspace is designed for highly efficient manual control and verification of the automated classification process, utilising confidence levels. Thus all incoming documents are identified and classified against business rules, document definitions, or databases, so that correct distribution is ensured and error rates reduced.

Once the destination is determined, distribution to the right staff member, department, workflow, case management system, document management, storage and retrieval or other back-office application is simple and straightforward. In effect ReadSoft are creating a 'Digital Bridge' to the 'Classification Chasm'.



“The ‘Digital Bridge’ is getting information in the form that is required, to the right people in the organisation in a timely manner.”

Fig 6. The ReadSoft Digital Bridge

The 'Digital Bridge' is often described as the 'digital mailroom' but in reality is so much more. It is not restricted to paper-based mail but can include faxes and, importantly, electronic documents from websites and also point-of-sale solutions. In effect while most Insurers are currently on step 1 or 2 of the evolution curve in fig 7. below, ReadSoft can take them the next 3 stages ensuring maximum efficiency and maximising the ROI.

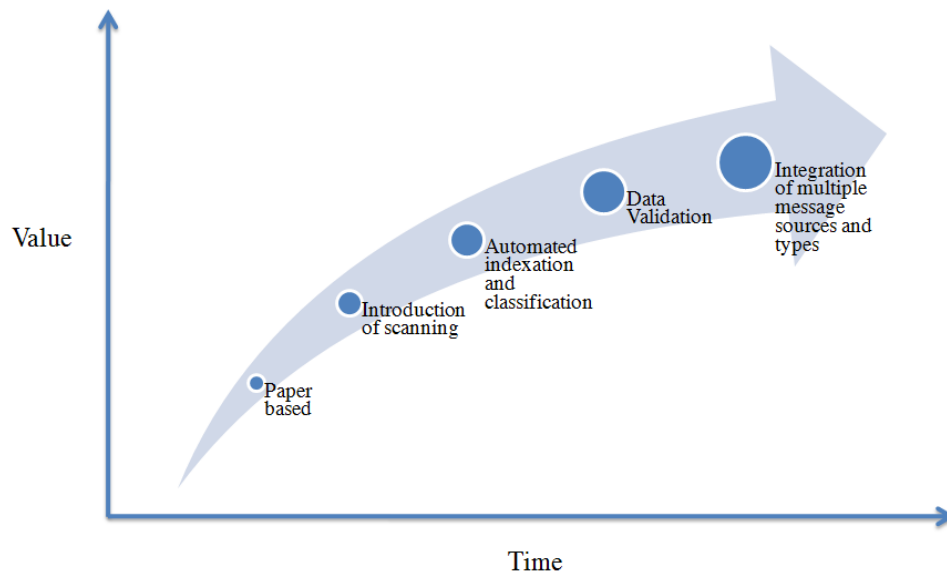


Fig. 7. The digital mailroom evolution curve

An important distinction of stage 5 is that it is significantly greater than simply automating the post, it results in getting information in the form that is required, to the right people in the organisation in a timely manner. This enables smooth integration to the financial institutions' core systems and this is what we believe is true, effective, 'Electronic Document Initiation'.

6 Benefits of Electronic Document Initiation

Electronic Document Initiation has many benefits as listed below:

Productivity gains

In many ways it is not surprising that an automated Classify & Index Solution leads to increased productivity and capacity, of a and the size of these gains are substantial.

One German insurer implemented an Electronic Document Initiation programme and saw its mailroom staff decrease from 100 employees to just 25! The company received information recognition rates of 84%, substantially reducing the need for any manual involvement.

Speed

Speed of processing is enhanced by getting the right information to the right staff, quickly. A great example of this is at an American Health Care company, where they have reduced turnaround times on claims by between 50 to 80%, while another Health Care company reduced claims processing times from 9-10 days to just 1-2 days.

Customer Service improvements

Prompt and easy access to the right documents in an electronic format clearly speeds up the response an insurance company can provide to its distributors and direct to clients. A good example of this is a French Insurer who implemented a Digital Mailroom and raised its customer satisfaction levels to 95% for its clients and 98% for its own consultants.

Reduction of errors

Accuracy is fundamental to quick turnaround of any process. By validating documents at point of entry and by reducing the potential for human error, Electronic Document Initiation can greatly reduce processing mistakes. A US Health Care provider increased information accuracy to 98% through automating the mailroom.

Scalability

The volume of documents passing through insurance companies' mailrooms is huge. Technologies such as ReadSoft's can manage up to 100,000 documents per hour enabling insurance companies to manage their peak times, such as the end of the tax year, with marginal impact on staffing levels.

Reduction in Paper costs

The costs of retaining paper documents goes beyond the labour costs involved in processing these documents and includes costs of storage and retrieval of documents. A survey by Konica and Allgeier stated that while the cost of classifying and archiving a document was 75p, the cost of searching and retrieving it ranged from £3 to £200 and if it was wrongly archived you could add another £100 to this.

Security and compliance

With the documents coming into a single point and then being moved to an electronic format the whole process becomes more secure, with privacy built into the processes. Furthermore, the processes become auditable from the point the documentation arrives in the company - which in today's highly regulated world is key to proving compliant practices.

With the advent of Markets in Financial Instruments Directive (MiFID) and the emphasis the Financial Services Authority (FSA) has been placing on Treating Customers Fairly (TCF), the use of solutions that empower the classification and indexing of communications becomes ever more important.

The new MiFID regime will compel organisations to ensure that right level of documentation and communication has taken place with regard to a transaction and that where financial advice has been undertaken the correct knowledge of the clients' situation has been acquired and recorded. The ability to recreate the process - including all relevant documentation - will be essential for auditing and complaints handling purposes. There are also provisions for the standardisation of data and management reporting systems across the entire enterprise, which calls for robust and structured document management and control.

The FSA TCF has been implemented recently, which directs financial services operations to behave in a fair, timely and reasonable manner in their dealings with customers. As with MiFID requirements, TCF will require evidential support and this will require organisations to be able to reproduce the information and documentation in respect of each customer and transaction. It is likely that over a period time further extensions to the TCF regime will be made and will encompass a far wider range of business types, including those aspects of products currently covered by the Code of Banking, Insurance Conduct of Business (ICOB), Mortgage Conduct of Business (MCOB) and finally Conduct of Business (COB), the life and pensions rulebook which encapsulates the new requirements driven by MiFID.

As the regulatory framework converges across the operation of the entire Retail Financial Services industry, the ability to have holistic processes and regimes for data management and classification becomes increasingly important and also drives significant business benefits.

7 Case Study Example - 'If'

'If' is a leading insurance company in the Nordic region with some 3.6 million customers. Customers are offered home, car and health insurance. The large number of customers together with the variants of products offered generates a staggering amount of paperwork, from free format letters to structured forms.

'If' had the vision that its customers should be able to deal with the company in whatever means they choose, be that fax, email, or by post, and that 'If' would still be able to process this business electronically. To achieve this 'If' selected ReadSoft and its system for intelligent data capture.



Fig. 8. The 'If' Approach.

'If' is capturing a host of structured and unstructured documents in an electronic format. The company uses the ReadSoft software to analyse the documents and identify the type of document it is. The software then classifies the document and forwards it to the correct processing system.

Automating this process has allowed staff to focus on more skilled tasks such as preparations and follow-ups while providing them with more time to deal with the small amount of information the system can't manage.

Lars Sahlin, Office Services Manager of 'If', says: "This type of cutting edge technology does more than improve our working environment - it increases our availability, lowers costs and helps us improve customer service".

8 The ReadSoft Kick-Start Programme

The benefits of using Electronic Document Initiation to Insurance companies are substantial but often not identified. To address this issue ReadSoft has launched a 'Kick-Start' initiative to help companies identify the key benefits for them and to visualise how the solution would work in their environments. At no cost to the Insurer organisation ReadSoft will run a consultancy exercise to:

- Audit the current document input processes - incorporating Scanning and Indexing processes.
- Investigate a specific automation task uncovered in the Audit.
- Build a 'Proof of Concept' of this automation to demonstrate the ease of creating a Electronic Document Initiation solution and to demonstrate some of the benefits.
- Formally present the proof of concepts to the executive within the Insurance company.

Through this 'Kick-Start' initiative, organisations can identify the benefits and suitability of implementing Electronic Document Initiation. They will be able to build a clear business case to cost-justify taking the initiative forward whilst also helping to identify the key requirements for automation.

If your organisation would like to take advantage of this 'Kick-Start' programme then please contact Russell Holmes on 07918706219 or email russell.holmes@readsoft.com.

“Readsoft have launched a 'Kick-Start' initiative to help companies identify the key benefits for them and to visualise how the solution would work in their environment.”

9 About ReadSoft

ReadSoft is a leader in Document Automation, providing solutions to some of the UK's largest financial services institutions, including RBS, Nationwide, Barclays, ING Direct, HBOS, Northern Rock and GMAC-RFC. To compete and thrive in the competitive financial services environment, institutions such as these have elected to deploy document imaging solutions to capture, sort, group and route documents into appropriate workflow processes.

Our world-leading Document Automation solutions are designed to automate document processes from the point of entry as part of an overall document management strategy.

ReadSoft's solutions provide a centralised entry point for all incoming documents - whether they arrive on paper or in electronic form. They enable inbound information to be captured, classified, indexed and routed to the appropriate department or personnel - reducing or eliminating burdensome manual processes whilst enhancing and integrating with existing workflow/ approval cycles.

With ReadSoft's solutions automating millions of documents a year across some of the largest financial services companies, these enterprises have come to rely on our solutions to deliver significant increases in efficiency, achieve stringent regulatory compliance standards and reduce costs. In most cases, the implementation of ReadSoft's solutions has enabled them to achieve a rapid return on investment.

Highlights

- World's leading supplier of software for Document Automation for more than a decade.
- 4,500 customers worldwide, from small to large organisations in various industry sectors.
- International, but close to you with offices in 16 countries providing local support and services.
- World's leading specialist in integrated invoice processing for SAP® and integrated invoice processing for Oracle®.
- Network of more than 300 partners using our products and ensuring support in 70 countries, including companies such as Intenia, IXOS, Siemens, SPSS Market Research and BancTec. Cooperation with consulting firms such as Cap Gemini, CSC, ATOS/Origin, KMPG, IBM Consulting and WM-Data.
- Software delivered in several languages.
- 15% of revenue invested in R&D and collaboration with research institutes.
- Listed on the Stockholm Stock Exchange since June 1999.

For further information, visit www.readsoft.co.uk, tel +44 (0) 1908 688000, or email info-uk@readsoft.com.