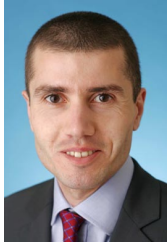


BEST PRACTICES



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ING Drives Business Efficiencies With SOA Architecture

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EXECUTIVE SUMMARY

Dutch insurers are currently facing challenges on all fronts: new regulation, increased market competition, and renewed service demands from intermediaries and customers. Improved efficiency, particularly in policy administration processes, has become one of the most frequent demands of intermediaries. Nationale-Nederlanden, a subsidiary of ING Group, is the first to rise to this challenge with an innovative policy administration solution built on the group's overall service-oriented architecture (SOA) strategy. The Dutch insurer's experience holds important lessons for firms across Europe wanting to streamline processes, satisfy advisors' demands, and simultaneously leverage SOA architectures across different geographies.

TARGET AUDIENCE

Business process executive, business analysis executive

DUTCH INSURERS FACE NUMEROUS MARKET CHALLENGES

During recent months, the Dutch insurance market has gone through an unprecedented level of regulatory change. On January 1, 2006, the government introduced simultaneously a new Pensions Act and a new Health Insurance Act — the first imposing more stringent pension regulations and the second making health insurance compulsory. Both changes opened up the Dutch insurance market to greater choice in insurance products and providers. In the process, they have reinforced the power of financial agents, who now play a crucial role in guiding consumers through the new financial planning map. These changes have resulted in enormous challenges for Dutch insurers.

- **Dutch insurers have faced enormous regulatory change and competitive pressure.** The insurance market in the Netherlands has experienced unprecedented change in the past five years, with the national government mainly driving this. In 2005, it pushed through the most comprehensive pensions and health care insurance reforms in the country for 50 years. These reforms opened up the Dutch financial services market to increased competition from both established insurers as well as new players. For example, under the new health insurance reforms, Dutch consumers will be able to choose not only from a variety of insurers but also from other financial providers, such as banks and investment houses — each offering the same government-defined package of health benefits.

- **Customer and agent demands have also increased to unprecedented levels.** The changes in regulation have had a ripple effect. Faced with a deluge of new insurance rules and increased product options, consumers have needed more help; they expect a higher level of assistance, greater efficiency in policy processing, and access to the firm through multiple channels. Intermediaries have strengthened their role in guiding consumers through the regulatory maze and have also become more demanding in terms of the support they expect from insurers. This is especially the case with Dutch agents' use of the Internet for convenient selling, servicing, and insurance processing.
- **Improved efficiency has become the most important objective for insurers.** The combined pressure of regulatory change and consumer and advisor demands has made improved efficiency one of the most important objectives for most Dutch insurance firms. Within this broad strategic priority, efficient policy processing and administration has become particularly crucial for insurers. Efficiency in these areas defines insurers' ability to manage operations, compete with other insurers, satisfy distribution forces, and comply with changing regulations. However, many Dutch and European insurers still have extremely complex and archaic policy administration solutions in place, incurring unnecessary costs and inefficiencies.

Nationale-Nederlanden Rises To The Challenge With An Innovative Policy Solution

Nationale-Nederlanden, a subsidiary of ING Group, is one of the key players in the Dutch insurance market. It sells insurance policies to three out of every four Dutch households, covering millions of private, corporate, and institutional clients.

- **Intermediaries are a crucial distribution channel for Nationale-Nederlanden.** Nationale-Nederlanden operates through a network of more than 5,000 independent intermediaries who also represent a number of other insurers. For these intermediaries, the Internet is increasingly important as a multipurpose channel for customer service, product sales, policy processing, and administration.¹ Since 2004, Nationale-Nederlanden has been working to satisfy the increasing demands of these intermediaries by developing a new user-friendly intermediary extranet architecture that would speed up inquiries, enable electronic quotes, and make insurance policy processing and administration more efficient.
- **Nationale-Nederlanden looked to its technology partner for solutions.** As part of its drive to improve its internal and external efficiency, Nationale-Nederlanden signed a contract with Unisys in 2005 that aimed to improve its policy processing and administration services — with a specific focus on the intermediary channel. Nationale-Nederlanden and Unisys had previously developed independent strategies: Nationale-Nederlanden studied how a service-oriented architecture (SOA) could be the basis for a future insurance IT strategy, and Unisys had developed a methodology for industrial product design and software development in an SOA environment.²

- **The first result of this partnership was a competition-beating policy administration solution.** The firms developed a new contract engine solution to administer insurance policies and initially rolled it out only to Nationale-Nederlanden's life insurance business.³ Unisys integrated this platform-independent solution with Nationale-Nederlanden's existing IBM infrastructure.⁴ Under this new solution, intermediaries now have direct access to the Nationale-Nederlanden back office through a special extranet; this enables them to get quotes, prepare policies for their clients, process contracts, and make changes to existing contracts.⁵

The business benefits began to reveal themselves quickly. By the end of 2005, Nationale-Nederlanden had achieved a 25% cost reduction and a 40% reduction in manual processing as a result of the new policy administration solution.

- **The new solution is already bringing tangible benefits to Nationale-Nederlanden.** Benefits of the new policy solution included straight-through processing, better quality of service to advisors, and better product pricing models. For example, 80% of Nationale-Nederlanden's general insurance administration is now based on straight-through processing, leading to a considerable improvement in quality of service for intermediaries. Before the launch of the new policy solution, it could take as many as 10 days to handle an intermediary's request for a product; it now takes an average of 10 seconds. The new policy administration solution has also enabled the Dutch insurer to innovate its product line: Agents can easily combine insurance policies into packages, based on the consumer's lifestyle or activities.
- **Efficiency benefits are the most evident, but scalability is also a winning factor.** The policy administration innovation that Nationale-Nederlanden launched has provided not only benefits for its Dutch operations, but also a footprint for what can be done in other international markets. Nationale-Nederlanden's SOA-based approach has effectively created a multilingual, fully flexible, and state-of-the-art solution that it can roll out seamlessly in other markets. Right now, ING is evaluating rolling out the solution that Nationale-Nederlanden pioneered across all its European insurance subsidiaries. By deploying a component-based solution in an SOA architecture, Nationale-Nederlanden is also able to more easily consolidate and integrate back-office operations. For example, it is now possible for ING to centralize policy administration back-office operations in one international back office, which will lead to substantial cost savings across the group.

The Nationale-Nederlanden case holds important lessons for European insurers. Many European insurers have started moving to SOA-based architectures, but few understand how best to use and organize these to improve efficiency. Nationale-Nederlanden's new SOA-based policy administration is a case study that European insurers can learn from. The Dutch insurer understood two key advantages of SOA-based models when it launched its new solution: 1) that these solutions can help differentiate its market offering, and 2) the importance of compartmentalizing the new solutions, allowing them to be scaled across consumers, agents, and even regional markets.

ENDNOTES

- ¹ Wraps are one of the most interesting examples of the new relevance of the Internet channel for financial intermediaries. Wraps, online distribution platforms for financial advisors, first appeared in North America in the 1970s, but revealed their true potential in the Australian savings market of the 1990s. Now a combination of regulatory, market, and consumer drivers sets the emergence of wraps in the UK insurance market. The UK is the testing ground for broad market changes that will also reach the Continental European insurance markets in the next three years. See the March 8, 2006, Trends “[Wraps: A New Value Chain For The European Insurance Market.](#)”
- ² New technologies and architectures such as SOA are having a large impact on the organizational structure and processes of IT and on its relationship with the business. See the March 15, 2006, Best Practices “[Strategic Architecture Development In An SOA World.](#)”
- ³ Six months after the successful rollout of the life insurance solution, Nationale-Nederlanden decided to extend the new policy administration model to all of its general insurance line of business. It completed this rollout in March 2006.
- ⁴ IBM has emerged as an SOA powerhouse in North America, Europe, and emerging markets. See the December 21, 2005, Quick Take “[IBM Reshapes The SOA Platform Market.](#)”
- ⁵ Both Unisys and the Dutch insurer agreed on a three-tier sourcing model, under which Nationale-Nederlanden’s local requirements were combined with Unisys’s global insurance knowledge and development skills in India. This gave the Dutch insurer the scale and capability it required to control the process: the code that was developed at night in India could be evaluated by Nationale-Nederlanden during the day, after which fixes or adjustment could be made quickly.