

competition: they compete for agencies, and they compete for insureds within agencies. In a sense, this competition puts the independent agency companies at a disadvantage when dealing with agents and insurance buyers. Consumers can choose from many distribution outlets, depending on the relative importance they attach to cost, convenience of purchase, service, and the ability to reduce the cost of their purchase through self-insurance. If they choose an agency that does not represent a particular insurer, they are lost to that insurer. After they choose an agent, they have the choice of a number of companies represented by the agent. Consumer bargaining power is also enhanced by the standardized nature of many insurance products, which makes comparing prices easy. In addition, as agents consolidate their books of business, they try to use the resulting leverage to play the remaining companies against each other to obtain additional concessions.

Independent agency companies expect interface to give them a stronger bargaining position and longer relationships with agencies and insurance buyers. So many companies offer some form of interface that many agencies expect the ability to interface, at least for basic tasks such as simple inquiries. Companies know that their systems must appeal to their agencies and that they must be effective for internal operations. Chapter 7 will further discuss interface.

Information Technology Objectives

Information systems have largely met the initial objective of automating manual activities. The success in doing so led managers to ask what else computer systems could do to improve record keeping and decision making. Not surprisingly, newer objectives have emerged and now dominate system design. Those objectives result from the relationship between user needs and technological progress. Users identify new needs, and system designers meet those needs. New technology appears, and users find ways to capitalize on it.

Gaining a Competitive Advantage

Insurers want to know more and know it sooner than competitors and to translate this knowledge into the design, pricing, distribution, and servicing of insurance products. In some instances, superior information allows an insurer to deemphasize business that is deteriorating. For example, if information points to an increased loss in personal auto coverage in a particular ZIP Code, the insurer will begin to withdraw from that business in that locale. More commonly, information is used to build sales. Products are designed or redesigned on the basis of information about such things as customer preferences, sales patterns, and shifting demographic characteristics. Target markets are established after careful analysis of information concerning population shifts,

changing lifestyles, business trends, and the adequacy of rates in given lines. The agency force is expanded in some areas and reduced in others, and its training and support needs are identified as a result of book-of-business analysis, statistics about sales potential and sales results, and other information.

Sales development is only one way insurers use information to develop market strengths and competitive advantage. They also use information to strengthen relationships with and to meet the goals of strategic stakeholders, as shown in Exhibit 3-2. For example, producing more efficiently would give an insurer the option of increasing dividends to its owners, lowering the price of its products, increasing its employee and producer compensation, or some combination of these. The key to gaining a competitive advantage is the insurer's ability to identify and provide the incentives to meet stakeholders' often divergent needs innovatively and competitively.

One major development that insurers use to gain competitive advantage is the increased reliance on mobile computing (that is, using notebook computers with modems and cellular phone lines). Mobile computing originated in the industry to enable claim representatives to better serve their clients. The ability to record claim information at the scene of a loss and to send it immediately to the company greatly improved service. This first step allowed insurers to develop other ways of using mobile computing. With the advancements that have been made in modems, wireless communications, and notebook computers, insurers can now provide access to their computer systems to agents anywhere and at any time. The ability to connect to company intranets and Internet servers allows insurers to provide up-to-date information to their agents, which in turn allows for making more informed business decisions. This is one more way that an insurer can use technology to gain competitive advantage.

Optimizing Use of Information Resources

Technology has already permitted insurers to reap many benefits. With most of the major labor-saving applications already in place, insurers are moving into the less quantifiable gains from information technology, such as customer service improvements and product customization. To evaluate new systems and allocate their scarce resources for the greatest returns, managers must know the total costs of the company's investment, understand the organizational consequences of system changes, and be able to measure the benefits.

Reducing Total Costs

Cost savings were a major objective, if not the predominant objective, in the early stages of automation. Cost was usually narrowly defined as the cost of

Exhibit 3-2
Strategic Stakeholder Incentives That Can Be Created Through Information Technology

| Strategy | Investors | Employees | Agents and Brokers | Policyholder |
|----------------------------------------------|-----------------------------------------------------------------|--------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------|
| Produce more efficiently | Increase profits | Obtain better salaries | Earn higher commissions or bonuses | Realize lower prices |
| Create new inducements | | Automate routine tasks to enrich jobs | Use computer-assisted underwriting authority | Create own insurance programs and risk management reports |
| Create entrance incentives and exit barriers | Automate marketing support for agents of parent life subsidiary | | Obtain: <ul style="list-style-type: none"> • improved service • competitive prices • lower operating expenses | |
| Redistribute inducements | | Decentralize authority and responsibility, tying compensation to results | | |
| Influence perceptions of value | Maintain technological leadership | Maintain technological leadership | Maintain: <ul style="list-style-type: none"> • technological leadership • flexibility | Maintain: <ul style="list-style-type: none"> • technological leadership • flexibility • convenience |
| Change stakeholders | | Encourage broader skills | Deal directly with insurance buyers | |
| Change stakeholder power | | | Tie agent/broker closer to company | |

performing the automated processing activities. This narrow definition has given way to broader concepts of the costs and cost savings that should be examined in evaluating information technology projects. For example, a project to automate a rating process might once have been judged by comparing its cost with the savings in salaries and benefits of the rating positions eliminated by the system. The contemporary approach, however, is to identify the *total costs* of the information technology project and weigh them against the *total savings* produced. In addition to the obvious costs of hardware, software, and system installation, the total costs of the rating system include training, system maintenance, security, and other less visible costs. Some of these costs must be estimated because they are difficult to predict or because they are shared among projects.

Measuring Total Benefits

Just as insurers are more informed about the costs of an information technology project, insurers now recognize that they should determine the full range of the benefits of using information technology. For instance, an insurer would need to identify all of the benefits that would result from automating a rating system, including those that cannot be measured but can only be estimated. The insurer should try to assign a cost to improved accuracy, faster service, smoother work flow, and other improvements. The search for benefits should not be limited to the rating unit, but should include savings realized in other units that perform the steps that precede and follow rating.

Internal Monitoring

Automated systems can keep track of the work they do, and they can also be designed to provide managers with summaries of processing activities and to report conditions that fall outside of defined limits. Automated systems can report on their own efficiency; the system counts the number of transactions and compares it to a number that management has set as a standard. Managers must be cautious when using a system to report on the performance of employees, units, and departments. Many managers make very selective use of a system's ability to, as some would say, spy on employees.

Properly designed systems can direct the manager's attention to the benefits or results produced as contrasted with tallies of keystrokes, items processed, or other activities. Moreover, the benefits to a range of stakeholders can be identified and reported. For example, a company could design its policy processing system to report measures of service that are important to its agents, such as the average time needed to calculate a quote or to issue a policy.