

STP is dead - Long Live 'Self Serve'

Meeting Advisers expectations in an electronic 'Self Serve' world.

Back in 1988 a consortium of Life Companies got together with BT to launch a new quotation service 'In-view', a service which allowed Adviser firms to compare quotations for Protection business across a number of different life companies concurrently. For some this seemed a brave move - to suddenly expect Advisers, used to communicating with life offices in paper form or over the phone, to suddenly adopt electronic means of correspondence and yet it became one of best used, best known Adviser platforms in the market. Today 'In-view' is known as the 'Exchange'.

It is difficult to understand why then, having built a POS quotation capability back in 1988, it took another 14 years for the first true POS new business capability to emerge in the market. A number of reasons have been given for this delay, technology being one, but the reason I've heard most often over the years is that the Adviser community would simply not be prepared to go on-line to submit new business as this conflicts with their sales process. But hang on a minute don't the Advisers perform their Exchange quotes on-line? Surely this required a change of practice?

Interestingly the reasons given tended to come from third parties, not the Advisers themselves - 'We trialed the use of electronic application forms but the IFAs don't seem to want to adopt them'. Is it any wonder given that unintelligent electronic application forms simply transferred operational cost from the Life company on to the Adviser community, offering no real business or service benefit to the Advisers themselves. So why was 'In-view' successful? Perhaps because it delivered real business benefit to the Advisers and their clients, not just saving time and costs but also adding real value to the advice process.

So where is electronic trading today and how well do existing Straight Through Processing (STP) solutions meet today's demands of the Advisers and distributors?

Research we carried out last year suggests there remains significant opportunity for Life companies and indeed their Reinsurer partners, to capitalise on the gap in service offered by current STP solutions and the levels of service now being demanded by the Adviser community. Significantly much of the demand is around greater control of the new business acquisition process and greater control over their client relationships. Indeed, the key finding from our research is that relinquishing control of the client contact to a life company is one of the Advisers' biggest concerns. One Adviser, who deals with high net worth clients, went as far as to say 'I don't want a life company to go anywhere near my clients'. To Address this concern completely for protection business may never be possible across all lives, pricing aside, but actually as a principle and an objective for the industry to strive for, it does make a lot of sense.

So how then should all of those who have a key interest in the value chain of placing new business, specifically I mean the Life companies and Reassurers here, go about meeting this objective. To start with, perhaps it's time we separated the need for risk management from the need for client management as these two desires are very different and logically belong to two different parties.

Most Advisers, when they place business electronically are trading on a provider's extranet, the applications are being validated against the provider's product rules, Underwriting decisions are being made using the provider's underwriting rules, premiums are calculated using Life company premium rates and commission is calculated using commission terms held on the life companies agency systems – so how much more risk management control does a life company really need?and indeed given the Life company has an open and honest relationship with their Reinsurer how much more control does the Reinsurer need? I suggest none.

The issue then is how do we give full client management control to the Advisers and distributors – where it logically belongs, without compromising the management of risk during the new business acquisition process?

Before looking at this specific issue it is worth establishing whether current STP solutions out there in the market are meeting the recent demands of the existing and emerging Adviser communities. In part, yes they do, in fact it's the impact electronic trading has already made that has excited the IFAs and has awakened their demand for more. Five years ago when STP solutions first appeared, life companies incentivised Advisers to trade electronically. Ironically these incentives still remain today, with Lauto rates being nearer 165% than 130% and yet if you were to ask Advisers how they prefer to place business today, the vast majority would say electronically rather than through the traditional paper form approach. Indeed, in our research of 150 high street Adviser firms, 80% said they preferred to submit applications electronically via the provider extranets.

But in answer to the key question do existing STP solutions offer the Adviser the client management control they seek, then the answer has to be 'No' and whilst we continue to use the phrase 'pipeline' the answer will always remain 'No'. I'll come back to this later. Although the acronym STP may be getting a little tired now let's not forget what it stood for - 'Straight Through Processing'. It is a fact however that there is not one STP solution in the market that achieves 100% straight through processing and the reality is there never will be (again pricing aside). Most STP solutions in the market are currently achieving 30% POS acceptance for life business in the Adviser market, some solutions claim to be achieving up to 50%. That means 50% plus of all cases submitted electronically still end up in the 'black hole' of the Life Company's back office. And here lies the key issue..... suddenly the IFA has had to relinquish control of the application for subsequent processing and with it, control of the relationship they have with their client. The Advisers are now in the same situation they used to be in when submitting applications in paper form, with absolutely no control – the application has gone into 'pipeline'! The Adviser can't change a client address, gender, age, benefit selection as they no longer have access to the application, not to mention the chaos that ensues should the case end

up rated – paper based offer terms, followed by paper based acceptance of terms, followed by paper based issue terms – delay, delay, delay!

In short existing STP solutions merely automate existing practice - yes we have been clever enough to address POS acceptance issues, but if the Adviser can't get their case through they've been pipelined! The mere thought send shivers down the spine of most Advisers and let's not begin to think about how this could influence future behaviour.

So is there an answer? Fortunately there is, unfortunately it requires a mind shift and far greater sophistication within our extranet solutions.

In last year's Protection Review an interesting article was written by Markus Luetzeischwab on the relationships between the life company and the reinsurer and how the spirit of this relationship can significantly influence pricing and operating models. This article discussed the concept of 'agents' where one party is acting on behalf of another and how the behaviour and trust between two parties is critical to both to achieve sustainable business success. This principle applies as much to the Distributor relationship as it does the Reinsurer relationship.

The mind shift is a simple one - what if we allowed the Adviser to remain in control of the application throughout the whole of application process and therefore remain in control the client relationship, What if we stopped thinking about the application process as a pipeline, What if we only touched the application when we needed to, without wresting control away from the adviser, what if we allowed the Adviser to make significant changes to the application - even after we have underwritten the case, what if we allowed the Adviser to select and choose their own set of revised terms at point of sale, without involving us, what if we were able to flex our mode of operating to suit the way our distributors want to trade, rather than asking them to do it our way,.....indeed what if we can do all of this without losing control of the risk?

To achieve this paradigm shift in thinking perhaps we should no longer be talking about STP – and start talking about 'Self Serve'.

The good news is this paradigm shift will be achieved to the benefit of all involved in the protection market. Why? – because our distributors are demanding the change and poor service solutions are simply no longer acceptable. The beauty of the internet is there is no hiding place, service capability is very public and transparent and only the best solutions will do. Below are just some quotes from Advisers arising from our research

"I could have told them their system wasn't going to work before their launch. The most frustrating thing is when we have the ability to key everything in but when you press the submit button everything turns to paper and you may as well not have bothered!"

"Why should any Adviser have to re-key because the system is crap!"

"We have to be far more cautious completing a Provider X's application because their system is more restrictive."

“Provider Y’s system is just like a data capture thing ... there’s no intelligent underwriting and you know that their responses will be in a paper format.”

Electronic trading has ignited Advisers and distributors alike into a new way of working and thinking, it is enabling new Adviser firms to penetrate new markets, we only need to look at the internet and call-centre based IFAs to realise this; I am aware of at least one internet firm who will be writing 50,000 applications this year. Electronic trading is not just creating efficiency and effectiveness, it’s creating greater opportunity and our distributors want more. A number of Life companies recognise this and interestingly so do the new players entering this market. So significant is the ‘groundswell’ that Reinsurers too are beginning to add electronic new business solutions to their list of value added services.

...and so the momentum is here, the expectation is here, the only concern now then for the Life Company and Reinsurer, is to ensure the solution they offer is capable of meeting the ‘Self Serve’ demands of the industry not just in the foreseeable future but beyond.