

Policy Coach - A Knowledge Management Case Study

ABSTRACT

Policy Coach is an on-line system to help Insurance Brokers prepare and process a Quotation for complex forms of General Insurance. This Case Study looks at the factors, influences and experiences which affected development of the product concentrating on Knowledge Transfer and Knowledge Management issues.

AUTHORS



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Policy Coach - A Knowledge Management Case Study

BACKGROUND

Allan Manning and Ian Fry successfully worked together on the Policycomparison product (<http://www.lmigroup.com/policycomparison>) which provided Insurance Brokers with an independent comparison of policies in General Insurance supported by a Knowledge Base of Points to Consider, Support Services for associated information, a Policy Library of all wordings on a permanent basis, and a Knowledge Centre for additional information and searching. This product has been commercially successful.

Some classes of Insurance are very complex - Contract Works (insurance on large construction projects), Import/Export (goods in international transit by sea or air), Liability etc because they deal with complex situations, but one of the most complex of these is Industrial Special Risks (ISR) policies. While the objective of Policy Coach is to offer support in all these areas, in this paper we concentrate on Industrial Special Risk (ISR) policies.

INDUSTRIAL SPECIAL RISK (ISR) POLICIES

Many will be familiar with Business Insurance which typically covers:

- Material Damage - physical damage to property and assets
- Money/Crime - handling of Cash, and internal crime
- Theft/Burglary - External Crime of all sorts
- Liability - both Public (damage to third parties) and Product (recall of items)
- Business Interruption - this covers the loss of profits due to a variety of external reasons and is quite complex.

Allan Manning has written a book specifically on this topic

(<http://www.lmigroup.com/www/templates/products/bi.htm>)

When an organisation has a turnover which is substantial (as an example over \$5 million) this Business Insurance is insured under an Industrial Special Risks (ISR) policy. Below that value, it is typically placed under a Business Pack policy which arguably is much simpler, but typically does not offer as wide a cover

There are 4 accepted versions of the ISR policy agreed by Insurers as well as individually manuscripted wording; these latter wordings are typically only written for the largest of risks. The Industrial Special Risks policy is a base contract of insurance which has been designed to be tailored to meet the individual needs of a business and this is done by way of endorsement. These endorsements can be grouped for convenience under three headings.

- Core endorsements which bring the various wordings up to a common starting base.
- Industry Specific endorsements which as the name implies are relevant to a particular industry, eg, printing or retail, etc, and then there are
- Risk Specific Extensions or endorsements which apply to an individual risk. For example, in the case of a historic building.

This tailoring process is quite complex but should result in a policy that meets all the needs of the Insured.

However, due to some drafting differences in the 4 basic policies, and the diversity of risks in the myriad of industries and business risks, there are in excess of 300 different, often complex and on many occasions competing, endorsements used in the Insurance industry.

In addition to this, a client (through his broker) or an Insurer can may wish to add their own client specific endorsement words. For example, some Insurers have their own individual endorsements for the Mining Industry which are not Industry wide.

Policy Coach - *A Knowledge Management Case Study*

BACKGROUND

THE AUSTRALIAN GENERAL INSURANCE INDUSTRY

The Insurance industry is "greying". Substantial retirements, and packages taken as a result of redundancies and amalgamations has meant that experienced practitioners at all levels are leaving the industry. Arguably like many industries there has been a deskilling of industry personnel. Furthermore, there seems to be few existing KM approaches to capturing their expertise.

Simultaneously, increased competition has seen tighter margins and pressure on premiums, leading in some cases to a deskilling of the workforce and a concentration on price as a determining factor in decision making.

Following the HIH Royal Commission and the introduction of Financial Services Regulation Act (FSRA) through ASIC as a regulatory body, the industry is forced into tighter compliance standards.

Also evident were new and more major forms of risk such as Terrorism, increased natural disasters caused by a combination of Global Warming and increased population densities, as well as Pandemics such as Bird Flu;. Even at a micro level like increased severity of Bushfires and Power Blackouts.

Through his work in handling insurance claims, Dr Allan Manning noticed an alarming increase in situations where clients were not insured, under insured or incorrectly insured due to a combination of the influences just mentioned. A proper insurance cover reflects the risks associated with the client's business, and an appropriate level of cover for those risks.

Allan was determined to improve the situation and received significant encouragement from the Insurance Industry.

Policy Coach - A Knowledge Management Case Study

WHAT WAS THE OBJECTIVE?

- To produce an expert system which helps a broker prepare a quotation for a cover which was most closely matched to their client needs. The option of producing a teaching or tutorial site was rejected in favour of an operational application.
- To assist the broker in the selection of endorsements, and to coach the broker in that process by drawing on the experience of industry experts
- To assist the insurer in the underwriting process by standardising wordings and streamlining the process.
- To increase the knowledge within the insurance industry on this class of insurance. In support of the initiative which includes both on-line and classroom based training, extensive research culminating in a 3 Volume book was researched and published by Dr Manning.
- To create a groundswell for the rationalisation and correction of the Industry offerings.

WHAT HAPPENED?

- The definition work was much more complex than we anticipated, with the associated book(s) running to well over ½ million words - about 1,350 pages. As we gathered the experts, they communally found more unexplained areas
- We received broad Industry sympathy for our handling of the complexity and the time it took. There has also been good acceptance that our suggested output is very close to the "best acceptable" answer.
- There was some difficulty in getting source information. As we found with introducing Policy Comparison, the Insurance Industry still had a mentality of "bottom drawer" sourcing of information
- We were able to rationalise some business rules - for example, specific industries could be grouped into broader categories, which was not our first impression of the issues involved.
- We provided links for brokers to seek the advice of the experts when necessary.
- As well as the basic system, various supporting calculators and tools were included in the package to improve the quality of the Broker's work. As an example, a calculator was provided for the various Fire and Stamp Duty charges for each state.

Policy Coach - A Knowledge Management Case Study

WHAT WAS THE KM SYSTEM OBJECTIVE?

- To build an engine that guided the insurance broker or adviser through the preparation of a quotation for Material Damage and Business Interruption insurance insured under an Industrial Special Risks policy.
- To support the education at each stage with on-line assistance specific to the task being performed and the area of policy at that point.

HOW DID WE ACHIEVE THAT?

- On-line Client Needs Analysis. This is a survey (historically 200+ pages) which the broker uses to gather the client's requirements. We used our on-line ability to provide in-situ validation, and to open up supplementary questions only when needed.
- Based on the Needs Analysis, we generate a suggested form of policy and list of endorsements. The coaching here consists of a "where did this come from?" explanation of which item(s) from the Needs Analysis caused the selection of this clause
- The Broker can de-select the expert system's recommendations and choose alternative or additional clauses. This process is guided to protect against mutually exclusive choices.
- Data, which is entered, flows through the process in a consistent and managed way. The previous approaches saw data re-entry and data summarisation being done manually
- At each point the user can ask for Help, from a conventional Help screen, specific to that particular content. The Help on how to use the site is separate. This is a summary form of Help. As an example, the brokers typically refer to endorsements by an abbreviated name or code, but this first level of help gives the full text as well, and simple guidance
- Beyond that level, everything links to the specific section(s) of the E-Library which gives the full explanation. The E-Library is an electronic rendering of the book content in a searchable and web based browsing format.
- We allowed the users to annotate the E-Library for their own purposes, and to share these comments with other users from the same firm.
- We provided a Training Module which poses a series of questions on interpretation. Brokers select from multiple choice answers, are scored and can refer to the E-Library on any incorrect answers. Score Cards are maintained to show progress in learning
- In terms of system management, the vast majority of system logic is maintained in decision tables which are updated by the package providers through a content management system. This system had internal consistency checking as well. The main objective here is to allow a rapid change or extension in line with market requirements.

Policy Coach - A Knowledge Management Case Study

WHAT HAPPENED?

We needed to assume a level of user familiarity. Were we going to coach a complete novice? Or would we guide an existing practitioner to produce a better result? The difficulty is that testing became subjective depending on this view and where we were in that spectrum.

Testing was genuinely difficult when so much was open to interpretation, and there may not be one absolutely prescriptive correct answer. We had to settle for a "best available advice" approach.

Our original intention was to drive everything from the Client Needs Analysis. Our original plan was that this was the best place to guide and discuss alternatives.

However, there were issues with the brokers doing the survey on-line with the client, and the client's lack of ability to understand the various alternatives, together with a marketing premise that it was the broker's job to sort this out, meant that we introduced a separate Broker's pass. This allowed the broker to consider the client requirements from a Policy/Endorsement view, rather than each specific need. One endorsement or limit covered a lot of requirements, and it was the endorsements and policy clauses that the broker had to discuss with the Insurers.

Converting the Books from a flat book to E-Library was a much bigger task than we anticipated, mainly because the reformatting could not be automated at this time. Typical issues were :

1. Footnotes are shown at the bottom of a page, but had to be placed at the end of each paragraph
2. "On the next page", "Overleaf" had to be replaced
3. The E-Library form uses hyperlinks to make the supporting materials more active (and useful).

QUO VADIS? (WHERE TO FROM HERE?)

Feedback from field testing with brokers has been good. The presentation of an integrated approach actually demonstrates the complexity of the task they were undertaking. We only fully realised the complexity when we produced our first trial runs of complete "proper" documentation.

We have also received feedback from the Insurers that the quality of Quotation Slips produced by our system represents a major advance for the industry

We are gaining self confidence as we recheck

The product will now proceed to commercial release

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LESSONS LEARNED

1. Never assume that the basics are correct. The drafting deficiencies in the base wordings which are accepted by the whole industry were a concern. Common acceptance does not imply correctness.
2. It is not always possible to be totally predictive in a quasi legal or contractual regime. Over specifying remedies and options can be impractical and non-productive.
3. Useability dominates. Some workers in this environment may accept a predictive and deterministic tool, and choose not to take on the responsibility for non-standard decision making. This places a constraint in the form of a "Limit to Knowledge Sharing"
4. The need to provide leverage layer. The expert system permits brokers to produce a better quality product and a better informed client, but does not directly cross promote that improved quality to the broker's client. In the books, a deliberate attempt was made to make the examples and explanations relate to real, recent claims experience rather than theoretical scenarios. But the product does not do the selling to the end client. This part of the loop needs to be addressed through training.
5. The assumed level of knowledge of the recipient needs careful attention. Layered approaches to knowledge helps the situation, but a fundamental decision needs to be made about which layer is presented first - do you drill down from the simple to the complex, or present the answer and allow a user to search for those areas they do not understand.

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