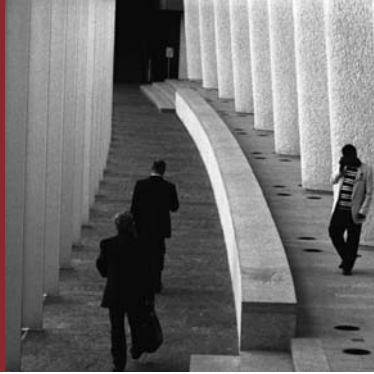


SAP Solution in Detail
SAP for Insurance



SAP[®] POLICY MANAGEMENT

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INTRODUCTION

POLICY MANAGEMENT SYSTEM REQUIREMENTS

Today's insurance market has clear requirements for the policy management systems of the future.

Insurance companies must be able to react quickly to changing customer requirements and to provide appropriate products and solutions. To do this, modern policy management systems must be highly flexible, user friendly, and easy to maintain. Only then can an insurer produce flexible, tailored, and modular products across all lines of business (LOB). At the moment, changes to products are still made manually in policy management systems.

However, in order to remain adaptive and proactive in the core business areas of an insurance company, modern software technology must automatically transfer and adjust the definitions of new products and changes to existing products in the structures for policy management. SAP® Policy Management (SAP FS-PM), SAP's insurance policy management solution, can make necessary changes automatically.

In today's economic environment, the need to keep costs down and to protect investments are the major influencers in an insurer's software purchasing decision. This is especially true for policy management systems because they are the backbone of an insurance company's core processes and represent a significant initial investment, as well as considerable implementation and integration considerations. Feasibility studies for software are increasingly characterized by economic calculations – return on investment (ROI) and total cost of ownership (TCO) – whereas license fees, hardware costs, maintenance, and implementation represent the most important cost factors. Cost analyses must also include other factors, such as the degree of automation or the time required to react to customer requirements in the marketplace. These concerns assume greater importance because policy management systems are often used for decades as core systems in insurance companies, unlike short-lived Internet applications.

The internationalization of the insurance business can also provide opportunities for consolidating or increasing market share, with scaling and synergistic effects. However, entering into and taking swift action in dynamic insurance markets is only possible if the software technology you implement does not impose restrictions upon your company. Standardization and flexibility, as well as support for multiple languages and currencies, are important prerequisites for the successful implementation of software solutions in the international insurance market.

The question of integration into the system landscape, which can often be very complex for insurance companies, is another important argument for standardized policy management software. Open interfaces and opportunities for integration into the standard solutions currently on the market are a part of SAP Policy Management.

The modular and easily configurable structure of this policy solution enables insurance companies like yours to map and reproduce their specific processes to suit their needs. Its structure provides the transparency you require and ensures a dramatic reduction in maintenance costs for your policy management system.

The continuous and rapid developments in information technology present another challenge – especially for insurance companies. Independent platforms and open communication with other components in the system landscape are extremely important components of a future-oriented software platform. In this landscape, such concepts as the separation of data presentation, application, and data storage are in a state of permanent improvement and development.

Ask yourself the following questions about the most important features of a policy management system:

- Does the software have a flexible structure so it can deal with future company requirements?
- Can the software help to combat rising costs?
- Can you establish a transparent system?
- Can you calculate the project costs?
- Is investment protection provided?
- Does the software adapt to new technology?

**PROPERTIES OF SAP POLICY MANAGEMENT:
BASED ON UP-TO-DATE SAP TECHNOLOGY**

Intensive analysis of the insurance industry and an understanding of its requirements are basic prerequisites for the development of standard software for the core processes of that industry.

SAP has been developing insurance-specific software since the start of the 1990s, and SAP Policy Management, a joint development with partner company msg systems, completes the SAP for Insurance portfolio of solutions. The software is being developed by clients, for clients, using SAP's proven Charter Client Partnership model of software development for new applications.

The latest SAP technology, SAP NetWeaver™ with SAP Web Application Server (SAP Web AS), forms the basis for SAP's efficient and progressive policy management solution. The unique feature of SAP for Insurance solutions is their ability to cross lines of business. This offers you maximum flexibility when defining new insurance products or when testing existing ones. Clear encapsulation of the various components in the SAP for Insurance

portfolio enables open linking to all other components in your system landscape, as well as linking to other SAP applications that are within the portfolio. The standard processes and interfaces of an integrated total solution reveal their full potential when they are used across multiple components.

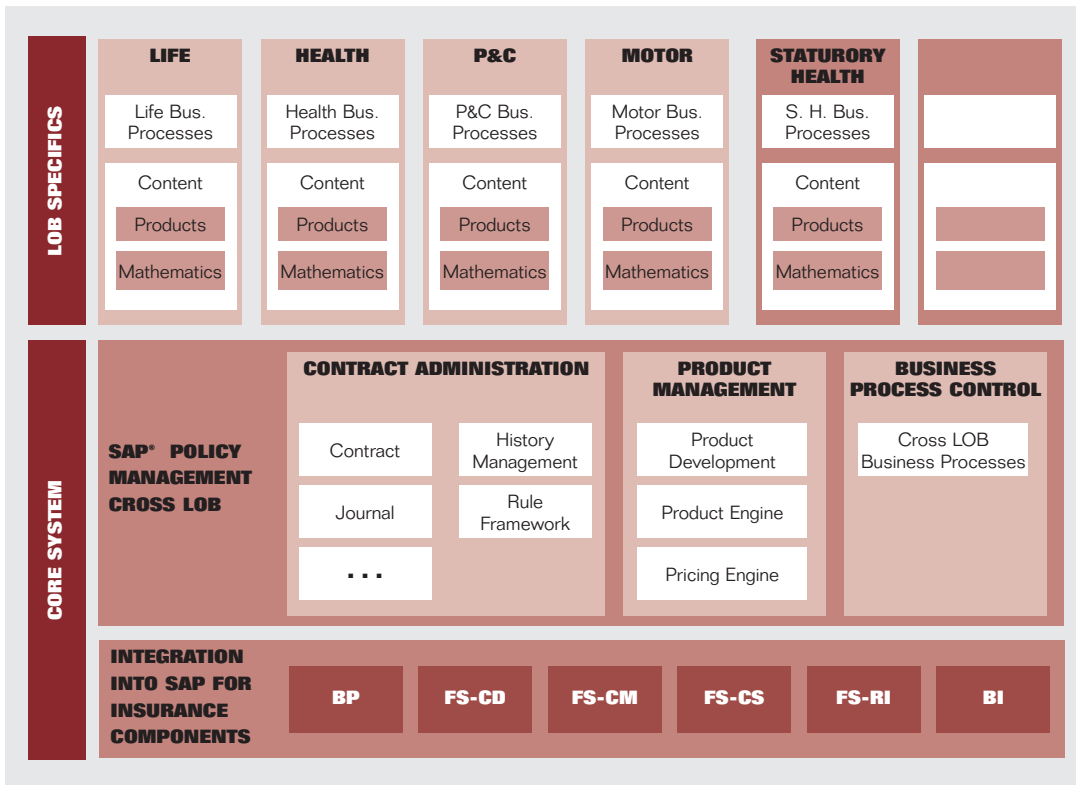


Figure 1: SAP® Policy Management Architecture

TECHNICAL ARCHITECTURE OF SAP POLICY MANAGEMENT: A COMPREHENSIVE BUSINESS SYSTEM WITH HIGH-PERFORMANCE INDUSTRY CHARACTERISTICS

The technical architecture of SAP Policy Management is best described as a base policy system with LOB-specific enhancements.

The core system contains components that have no specific relationship to a line of business and functions that are used in multiple lines of business. The core system also contains business process control, the product manager, technical (product independent) policy management functions, and tools for parameterization, which provide the flexibility required to customize the solution to meet your individual needs.

Business processes are predefined in appropriate components based on lines of business, and templates are defined, including the appropriate insurance calculations. This technical architecture enables you to develop new products suited to the market, such as components that can be created and realized in addition to the classic line of business products, yet at a very low cost. Time to market can be reduced dramatically so insurance companies like yours can identify and swiftly meet customer requirements, thus ensuring or increasing market share.

CORE FUNCTIONS OF SAP POLICY MANAGEMENT

INTEGRATION

An integration layer within the core system provides standard interfaces between SAP FS-PM and other IT systems. This integration layer also contains interfaces that guarantee seamless integration with other SAP for Insurance applications, such as SAP Collections & Disbursements (SAP FS-CD), SAP Commission Management (SAP FS-CS), SAP Claims Management (SAP FS-CM), SAP Reinsurance (FS-RI), SAP Business Partner, SAP Business Intelligence (SAP BI), as well as other SAP solutions.

PRODUCT MANAGER

The product manager, which is part of the core system in SAP Policy Management, consists of two main areas: the product developer and the runtime environment.

In the product developer, the insurance products are maintained according to their specific attributes and component hierarchies, the mathematical insurance description, and the associated control rules and consistency checks.

The standard version of the product manager contains complete, ready-to-run templates. You can use these templates as they are, or you can adjust them to suit your specific requirements. It's easy to create completely new products, according to your company's specific requirements.

In the runtime environment, the newly designed products are made available so they can be used in policies. You can actively manage them on the policy level. For example, if a change is made on policy level based on product knowledge, the insurance-specific rules are automatically made available. Products consist of elementary products, which you can reuse as building blocks for other products. A complete history is available at all times.

Changing product definitions creates product generations, or improved versions of the product, which are available to sales as products for a defined period of time. If a customer makes

a new request, this product information is used to create a new policy. Changes to a product generation lead to the creation of a new version (or generation) of the product. Therefore, a policy always refers to the latest product generation.

BUSINESS PROCESS CONTROL

The business process control functions within the core SAP Policy Management system contain the classic business processes for a policy, such as “new business, change, information, reversal, retirement.” These business processes can be used in the same way across multiple lines of business. Multiple business transactions can be executed within a business process. You can link these business transactions to one another, and you can enhance them at defined points to meet your specific needs.

POLICY MANAGEMENT

A journal documents the business processes that are executed for the policies and their business transactions. Business processes that have not been concluded are also visible in the journal, as are the processing time and the processing clerk who worked on the process. The correspondence created for a policy is also visible in the journal. Policy amendments that have already been released can be made invalid by a retroactive amendment. For a retroactive amendment like this, the affected components, such as SAP FS-CD or SAP FS-CM, are triggered simultaneously.

The core SAP Policy Management system provides two-dimensional period management as a service for all lines of business. This means that it creates versions for amendments that fix the start and the end of the validity (effective period), as well the time of the amendment (the time of processing). All amendments can be audited and are stored with information about the processing clerk and the processing time.

SAP Policy Management is governed by an authorization concept in which classic object authorization (such as products and policies) and transaction authorizations (for such functions as create, display, change, and delete) are used alongside structural authorizations and quantifying authorizations. You can also use amount limits that relate to the contents of certain attributes to assign various authorization levels when releasing business processes. Based on technologically open systems, you can set up parameters for viewer authorization, which increases data security. This allows the internal and external view to be restricted to the target groups. The management view gives processing clerks access to all policies within their appropriate area of responsibility. Partners (like agents, brokers, and so on) can access policies that they have concluded themselves or that they manage; customers can only view their own policies.

COMPONENT FUNCTIONS FOR LOB LIFE

The scope of the life business component contains specific business processes and transactions for managing life insurance policies and typical life insurance products with insurance technology. The following are the key elementary insurance products supported:

- Endowment insurance for death and survival
- Unit-linked life insurance
- Risk insurance
- Deferred annuity insurance
- Annuity insurance with immediate start
- Surviving dependent's insurance (with annuity payments)
- Additional accidental death insurance
- Additional occupational disability insurance
- Additional care insurance

A life insurance policy can be maintained so that one or more people are insured against one or more hazards. The following forms are supported:

- Normal insured person for risk insurance
- Insured provider/breadwinner for fixed-term insurance
- Coinsured person with marriage insurance
- Two or more insured persons with linked life

The system maps various hazard categories, which describe the risk categories into which the insured parties fall. This results in a clear expression of who is insured for what. The following forms are mapped:

- Death
- Survival
- Accidental death
- Occupational disability
- Requiring care

Benefit types in the life business function are primarily one-time capital payments, annuities, or exemptions from contribution with fixed-term insurance in case of the death of the breadwinner/provider.

Characteristic life business transactions include dynamic processing transactions and the determination of surplus participation, as well as risk checks and risk settlement (including processing for risk supplements), modifications to the amount of insurance coverage, and the definition of exclusion clauses.

Insurance mathematics map the calculation of premiums and benefits when issuing a new policy, according to the calculation rules set for totals and premiums. You can determine premiums and calculate benefits calculations, as well as guarantee values (taking reversal deductions for surrender values into account) and determine paid-up totals. Other insurance-specific calculations include:

- Determining the calculable credit from the reserve and surplus credit at the time of change
- Taking overdue premiums into account
- Taking a loan to be offset into account
- Determining costs to be retained
- Determining a new policy status:

- When changing key data (such as the insurance duration)
- When increasing the sum insured or the premium and retaining the key data (dynamically, for example)
- When reducing the sum insured or the premium and retaining the key data (partial reversal, for example)
- With waiver of premium
- When converting to a recurring annuity

The premium splitting and reserve development functions also use insurance mathematics. Appropriate formulas and calculation parameters are available to create the balance:

- Splitting the premium into risk, cost, and savings shares
- Coverage reserve
- Acquisition costs, collection costs, administration costs
- Midyear surcharges

Key dates and time periods are planned as frequencies (such as years or months) in time-period processing. The rules and methods for calculating insurance tax and capital gains tax are supported in tax determination.

NONLIFE AND AUTO BUSINESS COMPONENT FUNCTIONS

The nonlife and auto business component contains specific business processes and transactions for administering claims and accident insurance, as well as typical insurance products for this line of business with their insurance mathematics.

These are primarily the branches of the insurance line of business, such as:

- General liability insurance
- Auto legal expense insurance
- Accident insurance
- Nonlife insurance
- Auto insurance

You can maintain insurance products so that one or more objects are insured against one or more risks. With accident insurance, these insured objects can be people or physical objects (such as buildings, autos, valuables, and so on). The nonlife and auto business component maps various hazard categories, which form risk categories in conjunction with the insured objects. This clearly expresses who or what is insured against each risk, for example:

- Damage or destruction of a home's contents by fire
- Damage or destruction of an auto by collision
- Injury to a person by external factors

In addition to basic functions, the nonlife and auto business component contains such functions as:

- Indexing
- Bonus and penalty levels
- Profit participation
- Premium adjustment
- Value adjustment
- Key date invoicing

HEALTH BUSINESS COMPONENT FUNCTIONS

SAP is working on a component for managing and administering private health insurance. Comprehensive descriptions of the functions for this component will be available in the future. This health insurance solution will also include a comprehensive application produced in cooperation with AOK Systems.

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