Worldwide EDI Standards and the Insurance Marketplace

by Robert E. Merriman *

1. Success in the 90's

I am deeply convinced that we as insurance managers must define success parameters for the 90's that focus heavily on *individual* efficiency and productivity. With all its challenges, no one can deny the opportunities. Economically, the 21st century will begin in 1992. An insurance market of 540 million people waits in Europe. I suspect that their success parameters differ little from those in the US marketplace.

With respect to insurance, to compete in this global environment will require a company to determine:

- What a customer needs.
- Which attributes customers deem to add value to the product.
- How operating capabilities can best satisfy customer requirements.

But success will demand different values this time around. *The name of the game will be quality*. For example, to succeed in the US independent agency system, the insurer *and* the agent must *fight* to win the customer.

Success in the 90's will also require an operating philosophy dictated by four credos:

- an obsession with quality (Zero defect)
- a structured plan
- day by day productivity
- accepting the customer as "king".

People will be paramount. The environment will require us to:

- pay those who perform
- demand excellence in service.

As a result, *nobody* will have a right of tenure. Management will deal with people on the basis of what they *know*, rather than where they *sit* in the organisation!

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Leadership will be essential. Leadership is many things:

- separating desirability from necessity
- responsibility and accountability
- seeking advice
- knowing when extra effort is required
- maintaining enthusiasm
- the ability to plan, strategize and think ahead
- winning
- integrity.

2. A unified effort

Let me suggest what I think it's really going to take to get from where we are today – December, 1991 – to where we want to be by the year 2000.

There can be no *real* interface in the insurance distribution system without full automation and widespread use of standards.

There can be no *effective* industry automation without:

- education
- workflow efficiencies
- a focus on productivity
- structured planning.

The key to the agent or broker's profitable use of its automation system is its *commitment to education*. Automation constantly demands an open mind in order to learn new ways and utilize new technologies to gain the productivity edge.

The old saying "If it isn't broke, don't fix it" needs updating. "If it isn't broke, you just haven't looked hard enough!"

The interface we all want – Single-entry, multiple-company interface – *is achievable*. Multiple company interface requires electronic standards and at least in the US, ACORD forms lay the groundwork for that commonality.

But until *all our companies* accept and use ACORD Forms as *the only data collection format*, how can we possibly expect to achieve this objective? Clearly, this is one of the "hole cards" missing from our interface solution.

3. The standards scorecard

In the US, a lot has been accomplished in the last ten years, but we continue to seek this common goal – in an uncommon way! Interface efforts today are still fragmented. The result is "customization" between vendors and companies, and that only inflates the expense ratio.

Everyone with a stake in this effort – companies, vendors, agents and ACORD – must accept the efficiency of *common implementation efforts* if multi-company interface is to become a reality by the start of the next century.

4. What will it take to achieve success?

Speaking for the US, each segment of our constituency has a direction it must take to achieve this industry goal:

Companies must use ACORD Forms and develop Standards-based interfaces.

Vendors must design automation system screens based on ACORD Formats and use plain paper ACORD Forms.

Agents and brokers must seek performance and productivity from every automation function in their system.

ACORD must accept and be responsible for more definitive roles in coordinating, consulting and educating all industry groups to seek the interface objective.

The competitive edge also requires us to understand that change is constant. As insurance professionals, we must *anticipate* change.

Wayne Gretsky, the famous ice hockey star, says it best: "Skate to where the puck is going to be – not where it's been."

5. Why does the world need standards?

I once heard someone say that everyone *loves* standards because we have so many of them! Standards are a part daily life – in every country. As examples, we have standards for mail, for highway speeds, for the time of day. They may be a bit different in your country from the USA, but not much. In fact, it's difficult to think about basic business and personal living habits and find too many areas where *some sort of standards don't apply!*

This paper will take a close look at "EDI" Standards – EDI representing "Electronic Data Interchange" – *meaning* how your company can interact with mine electronically in a business environment – and *why* standards are important to each of us!

A - C - O - R - D is the acronym for our company, and identifies us as the Agency-Company Organization for Research and Development.

6. What are Standards anyway?

The best definition I've found runs something like this:

"A set of rules or conventions that we follow to perform a particular function".

Here are some basic examples:

Letters = name, address and zip code

Telephone = area code, local exchange, extension number

Date = month, day and year

The world of "EDI" requires all of these – and much more – to enable us to process insurance electronically.

7. Why are standards important to the insurance industry?

It's easy to cite *four* basic reasons:

- we are an industry *burdened with paper* = standards *help* automation.
- *information is similar* across many lines of business = a standard for an element of insurance information can be re-used wherever it applies. Some examples include: insured's name, address, producer code, driver name, etc.
- *cost* = using standards wherever possible means less development expense. You don't keep reinventing the wheel!
- *efficiency* = statistics prove there are fewer errors, higher accuracy and greater productivity wherever standards are utilized!

8. Three levels of Standardization (Figure 1)

In the EDI world, we talk about three *distinct* levels of standardization:

- *First: International (Worldwide)*
This is the highest level, and by its nature, must generically bring together all national/regional standards.
- *Second: National*
By national, we mean the region or area, such as the US, or Europe. Using insurance as an industry example, this level would go beyond property/casualty or life/health, to include banks, credit card companies, etc.
- *Third: Industry Specific*
This level involves the specific industry. For our company, that would include the Property/Casualty industry, comprised of direct insurance and reinsurance. (Life and Health is usually considered as a separate industry). Individual insurance industry standards must then migrate to the national level.

Figure 1:
Three Levels of Standardization

9. Three levels of Standardization (Figure 2)

Let's look at these three levels in more detail:

- (1) *International (Generic level)*
 - Within insurance, all data transaction standards and personal/commercial lines are rolled up into *premium invoice transactions*; process transactions are harmonized into *claim processing*.

- (2) *National (Functional Level)*
 - Within insurance, *line of business* is summarized into (1) personal lines, or (2) commercial lines.
 - *Process* transactions go forward with some generalization, such as (1) customer notification, company notification, cross industry (i. e. glass industry for auto claims).
- (3) *Industry Specific (Transactional level)*
 - In insurance, this level includes detailed standards by line of business and by process.
 - *Line of Business* = data for Homeowners, Personal Auto, Pers Inland Marine, Pers Umbrella, Business Auto, Truckers, Workers Comp, Gen Liability, Coml Property, Crime, etc.
 - *Process* = data for Claim Notice of Loss, Claim Financial Reporting, Renewal/Cancellation, Print Image, etc.

*Figure 2:
Three Levels of Standardization*

10. Three Levels of Standardization (Figure 3)

How do these standards get developed and implemented?

- (1) *International (Generic)*
At this level, the organisation involved is known as UN/EDIFACT (United Nations Electronic Data Interchange for Administration, Commerce and Transport).
- (2) *National (Functional)*
In the USA, the organisation setting and implementing standards on a national level is the X12 Committee of ANSI (American National Standards Institute).

(3) *Industry Specific (Transactional)*

At this level, each specific industry has its own EDI standards. In the USA, our company, ACORD, is known as the standards-setting organisation for the insurance industry.

We need to examine each level in more detail:

Figure 3:
Three Levels of Standardization

11. International Level of Standardization (Figure 4)

- At this level, all standards have to be generic. There is much less *detail* here than in the national or industry specific levels, but there must be flexibility to harmonize multi-national requirements. As an example, a premium invoice standard would cover all lines of business, whether personal or commercial.
- UN/EDIFACT is the body that has been developed as the specific solution to the need for international EDI. Its function is to facilitate the exchange of business data and requires further explanation as the highest level of EDI standardization now available.

What is UN/EDIFACT?

- UN/EDIFACT defines the rules and is the acronym for United Nations Electronic Data Interchange For Administration, Commerce and Transport. This consists of a set of internationally agreed standards for EDI developed within the framework of the United Nations, published by a sub group of the UN Economic Commission for Europe (ECE) in the United Nations Trade Data Interchange Directory.

- For more than ten years, a working group of the ECE has been developing essential standards covering data elements, codes and syntax rules for EDI. Membership includes countries from North America, Western Europe, Eastern Europe and the Far East. UN/EDIFACT is the result of this development and these standards have been approved by the International Organization for Standardization (ISO).

*Figure 4:
International Level of Standardization*

Participation in the International Standards Setting Process

12. Joint Rapporteurs

The delegate from each region heads a regional EDIFACT board which coordinates regional standards organisations and assigns delegates to the seven UN/EDIFACT work groups who develop worldwide EDI standards.

- In North America, the NAEB (North American Edifact Board) serves as the coordinating body of North American national EDI standards organisations and provides a forum for representation and consensus.
- DISA, called the Data Interchange Standards Association, is the support arm of EDIFACT – the *international standards body* – just as it is for the *national standards body* in North America – ANSI. By using the same support group for *both* organisations, many dollars are saved.

UN/EDIFACT Work Group Structure

- The work group structure includes ten administrative work groups, as follows:
 - Procedures and Documentation
 - Joint Technical Assessment

- Joint Maintenance Agency
- Code and Data Element Maintenance
- Awareness and Education
- Interactive
- Statistics
- Security
- Message Documentation/Syntactical
- Product Data and Control
- There are seven message design work groups in this structure. Currently, French and American delegates act as co-chairs.

Insurance Work Group Standards

- Recent accomplishments of the UN/EDIFACT insurance work group MD4A include standard message design principles which were agreed upon for use in all future development.
- High on the agenda and at an advanced stage are the claims messages. Due to the diverse nature of insurance and the variety of organisations serving the insurance market, three variations of a claims message are already in use. RINET, LIMNET and TIDE are working to harmonize these messages into a single claims message. In North America, two reinsurance associations – RAA and BRMA – are getting involved.
- A premium invoice message relating to premiums applicable to a particular risk or risks is under development.
- What are some of these acronyms?
 - REINAC = Reinsurance Account Message. Used to report *activity* between an insurer and a reinsurer.
 - CURRAC = Current Account Message. Used in reinsurance to report financial transactions between parties.
 - INSPRE = Insurance premium Message. Used as a premium invoice.
 - ICONOMO = Insurance Claim Notice for Motor Insurance (Layman's term is Automobile Claim Notice).

13. National Level of Standardization (Figure 5)

- At this level which we identify as the functional level, the property/casualty industry, life/health industry, banks and credit card companies are working together to set national standards that each can use.
- Using the property/casualty business as an example of the national process, individual line of business standards are summarized into either a personal or commercial lines split, and process transactions (i. e. claim notice of loss, financial reporting, renewal/cancellation, etc.) are generalized across all industries.
- ANSI ASC X12 is the national body leading the standards development effort. The Accredited Standards Committee X12 requires some further explanation.

*Figure 5:
National Level of Standardization*

What is ANSI ASC X12?

- The American National Standards Institute was founded in 1918 as the coordinator for national standards in the United States. This voluntary organisation coordinates US participation in other groups, for example, the International Organisation for Standards (ISO) and UN/EDIFACT.
- In 1979, ANSI chartered a new committee, ASC X12 (committee for electronic data interchange) to develop uniform standards for electronic interchange of business transactions. ANSI does not develop standards itself.

Members of the ASC X12 Committee can propose requests for new standards or changes to existing ones. This participation is a national standards-setting process.

What is DISA?

- We talked about DISA a bit earlier. It functions as the ASC 12 secretariat. Principal duties include communication with ANSI and the public on behalf of ASC X12, managing the Standards database, publishing, planning and managing ASC X12 meetings, and the annual EDI conference.

14. ASC X 12 Insurance Membership (Figure 6)

When you review the participants in this group, you need to consider two significant numbers:

- *April, 1989* = In the US, only three or four insurance organisations were involved.
- *October, 1991* = There are now thirty-five different P&C member firms. Their makeup includes:

- Primary insurance companies
- Reinsurance companies
- Providers of insurance services
- Insurance standards organisations, such as ACORD and the Centre for the Study of Insurance Operations (Canada).

*Figure 6:
ASC X 12
Insurance Membership*

ACORD	ITT Hartford
ÆTNA	IVANS
Allstate	Kemper
American Insurance	Liberty Mutual
American Reinsurance	Maryland Casualty
Atlantic Mutual	National Auto Theft
Chubb	Northbrook
CIGNA	Policy Management Systems
Commercial Union	Prudential P&C
Crawford & Company	SAFECO
Crum & Forster	St. Paul
CSIO	The Travelers
Cumberland Automation	Transamerica
CUNA Mutual	USF&G
Employers Mutual	USAA
Equifax	USA Glass
General Reinsurance	Windshields America
Guy Carpenter & Co.	

What is ACORD's Role at this level?

For our US members, we screen and report on all insurance activities at ANSI. We attend all meetings and vote for standards development changes that protect the investment our own insurance company members have made. For the last ten years we have been working to develop industry specific standards (1982 through 1992).

We also have staff members who have chairman-level roles on various ANSI X12 subcommittees.

What is the Status of INSURANCE in this Effort?

- Prior to February, 1991, *no* major committee status for INSURANCE existed at ANSI!
- ACORD was instrumental in forcing this change during the past eighteen (18) months prior to the February change.

Working subcommittees of the Insurance Committee

There are eleven working groups formed as a result of the change in February, 1991. ACORD is concentrating its activity in three of these groups:

- Property & Casualty
- Reinsurance
- Architecture.

Insurance Subcommittee Standards

- Two ACORD standards have been converted to ASC X12 format, using Paradox database software, and submitted as work requests. These standards are :
 - Claim Notice of Loss
 - Claim Financial Reporting
- ACORD's Data Dictionary has also been submitted – along with the Life/Health Data Dictionary – to be merged into one all-insurance Data Dictionary.
- ACORD member organisations who have used or implemented ACORD Standards want to protect their investment. Our sensitivity to this resulted in elevating these standards from industry specific to the national level.

15. Industry Specific level of Standardization (*Figure 7*)

- At the industry (transactional) level, detailed insurance standards are developed by *line of business* and by *process*. ACORD standards also include standards for transmission, interface, policy download and a data dictionary. Some forty-five (45) electronic standards in all support the property/casualty industry today.

*Figure 7:
Industry Specific Level of Standardization*

What is ACORD?

- ACORD is the only P&C industry organisation devoted exclusively to improving the efficiency of the distribution system, particularly with respect to the use and exchange of information (EDI). There are *four* major areas of focus that establish the ACORD mission:
 - *Standards* = Forms, Screens, Formats, Transmission (talk via computer).
 - *Automation* = Selection, Workflows, Software, Vendor bibliographies.
 - *Education* = Seminars, Workshops, Publications, Consulting.
 - *Technology* = Emerging technologies that can be portable to agencies.
- Important to both ACORD's domestic and worldwide standards efforts is our expertise in insurance operations in *two* areas:
 - agency workflows
 - company branch office processing.

Automation/Standards Support Level.

- We've already noted the mission objective of ACORD – making the independent agency system more efficient.
- A key goal in the achievement of that objective is widespread interface between agents and insurers.
Industry EDI standards for interface will assist in realizing single-entry, multiple-company access for agencies.
- The transfer of information between diverse computer systems throughout the industry is complex and costly. Standards offer a cost effective solution for companies and system providers. The specific standards involved are transmission standards. They include:
 - Batch transmission and message structure
 - File transfer transactions
 - Electronic mail structure
 - Interactive transmission session and message structure.

These standards set the foundation for all data exchanges.

- The insurer impact on ACORD is significant. More than twenty of the top twenty-five agency company insurers are part of ACORD, and the premium penetration extends to two-thirds of *all* Property/casualty written premium.
Today this penetration is extending to specialty companies and direct writers, many of whom are beginning to use independent agents to fill a market void in their territorial strategies.
- The agent/broker community has an even larger stake in ACORD. While the individual agent is not a member, he or she *can* be subscriber, thereby receiving value-added products and services and special mailings that announce emerging technologies.
- The sphere of ACORD influence among agents and brokers extends beyond the 25,000 number level, and is increasing. An agents automation advisory committee (JPAC) represents all national producer associations and provides direction for ACORD automation programs from the end user (agent/broker) perspective.

- The vendor/provider impact on ACORD is reflective of the services performed for the many insurance organisations active in automation, and particularly those who desire to interface with their agents. Nowhere except in ACORD can a provider find his peers from all ranks of the industry. Since agents and brokers have a fifty percent stake in ACORD programs (seats on our Board), it behoves providers who want penetration to know what these clients are thinking, at all times.
- Our major automation objective is to increase the level of awareness among agents and brokers such that automation in the form of the workstation will exist in every office. This will make it feasible for interface to become commonplace. SEMCI – single-entry, multiple-company interface – is the collective agency objective, at least for all major lines of property/casualty insurance.

Electronic Transaction Standards

We need to look in more detail at the four areas of ACORDS's electronic transaction standards:

Transmission Standards

Transmission Standards are essentially a map. They define:

- *How* an electronic message should be constructed by the sender.
- *What* the content of the message contains.
- *How* the receiver identifies the message and the data to look for.

Data Standards

- These standards represent the data requirements needed for information exchange at the line of business level.

Interface Standards

- Everything developed for interface in the US has been done by ACORD. The *Policy Download* standard is the first step toward the single-entry, multiple-company interface objective – we refer to that as SEMCI. Agency-company interface is logically the extension of effective automation already in place at both the company and the agency, and *must* be part of the overall automation plan. As the industry migrates to a more integrated and standards-based environment, *implementation support* becomes critical.

Implementation Support

- In the US, ACORD is the primary provider of expert support for standard interface development. A segment of our staff works with standards full time, and has been involved with almost every interface project to date. We began offering this support to company and vendor developers because sharing of experiences from early interface efforts would save the industry considerable amounts of time and money.
- The ACORD *ASSIST* PC software product provides automated access to information in the ACORD standards. It also automates most of the definition process for an individual firm's use of those standards, and documents the rules for mapping data from the standards format to the individual user's data base format.
- Implementing standards is an evolutionary process, and system developers must be fully conversant with standards documentation. ACORD's implementation support helps provide a payback to the industry in the form of reduced time and cost to implement standards.

How “ready” is ACORD with interface standards? (Figure 8)

- Personal and Commercial Lines activity has essentially been completed, with nearly twenty different lines of business standards available. Important items in the *Miscellaneous* category include:
 - Notice of Loss
 - MVR Report Request
 - Premium Accounting
 - Audit

*Figure 8:
ASCORD
Standards Readiness*

- 45 approved Standards
 - 40 Batch, 5 Interactive
- How are they used
 - 2 Transmission
 - 19 Structure / Communications
 - 18 Line of Business
 - 6 Miscellaneous

The Future for EDI Standards

To keep EDI from being an academic exercise, implementation between trading partners is critical at all three levels of standardization. There are separate and distinct challenges to standards implementation at each level.

- ACORD is involved in standards implementation at all three levels. Our standards are being converted to ANSI ASC X12 format, and an alignment of syntax between ASC X12 and EDIFACT is underway.
- The future of national and international standards implementation will have a lot to do with the alignment of syntax, probably toward EDIFACT and probably through national standards following EDIFACT. This means more generic message development will be required and that data dictionaries will need stabilization.
- ACORD is working to integrate its existing P & C insurance codes, element definition, etc. into *both* ANSI and EDIFACT standards dictionaries. Why? To save time, money and reinvention!

Why is EDI important to your future?

- *The world is now a global marketplace*
All distribution channels are changed! It's no longer merely a domestic market for an insurer, but a *world* market.
- *Multiple Trading Partners will be accessible*
You have the opportunity to become as involved as you wish – in every country, at every level, with *any* trading partner in ANY INDUSTRY – *if* you use international standards!

- *International Communications Capabilities are commonplace*
 - The networks are here, they use satellites all over the world for transmission. The economic key is a common language to use for that transmission. That language must be UN/EDIFACT Standards!
- *Maximizing Customer Service is key*
 - Those who want to provide the best service will use the world-wide capabilities of EDI! It's no longer technology that we need today; it's international insurance standards.

The new decade holds challenges, opportunities and obstacles for agents, brokers and companies. We at ACORD are aware of the pitfalls, but even more aware of the tools needed by agencies and companies to succeed. There is no question that well planned automation and multiple company interface are the building blocks of a mutually successful partnership in the emerging international marketplace.