IT-enabled Market Success:
It's About Time!

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Today's Presentation

- **A Brief History of OneBeacon Insurance**
- **Key Elements of a successful project**
  - Technology
  - Process
  - People
- **Were we successful?**
- **Appendix for the terminally technical**

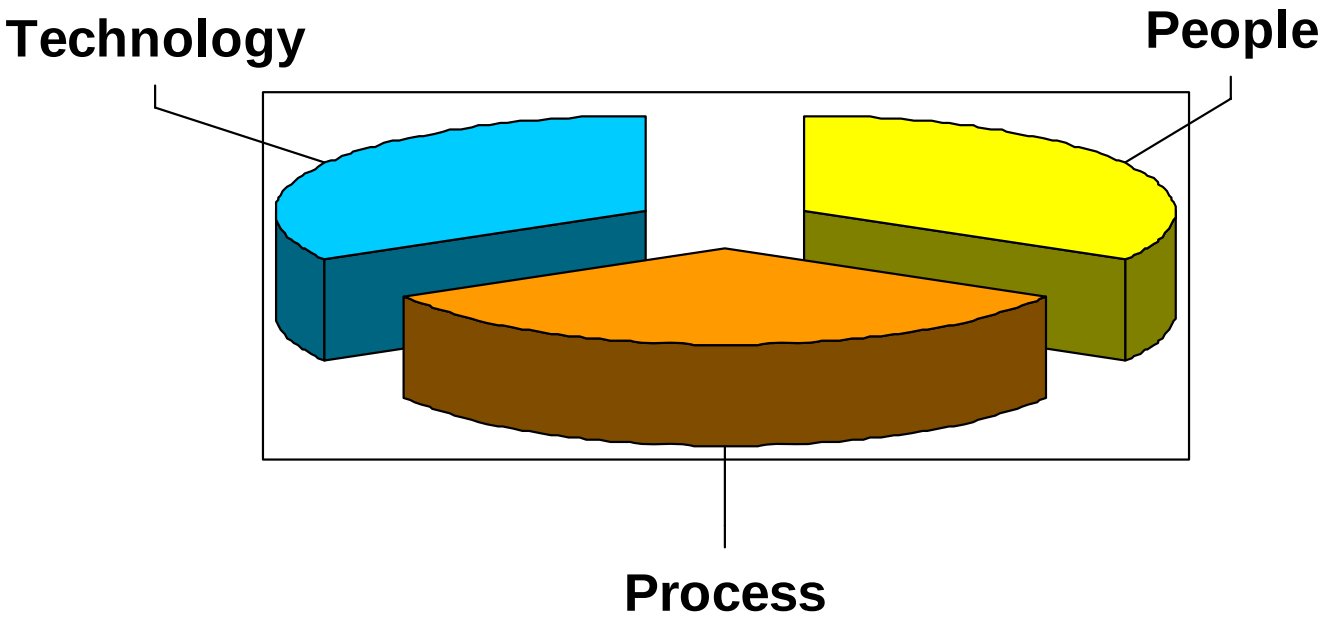
A brief history of OneBeacon Insurance

- OneBeacon Insurance (OBI) is a property casualty insurance company headquartered in Boston, Massachusetts
- OBI is the successor company to CGU. OneBeacon Insurance began operations in June 2001. At that time the company was losing $50mm/month
- Combined ratio was well into the 120's
- Business direction was not focused and goals were not clear

A brief history of OneBeacon Insurance

- Key support roles, such as IT, were not aligned with the business
- After 3 years and $100mm spent, an attempt to consolidate multiple policy administration engines was abandoned
- Once OneBeacon began operations, all business strategies and goals were revised
- Operating Principles and business unit goals were developed and communicated to all
- Support organizations, including IT, continued only with work that would help achieve those goals

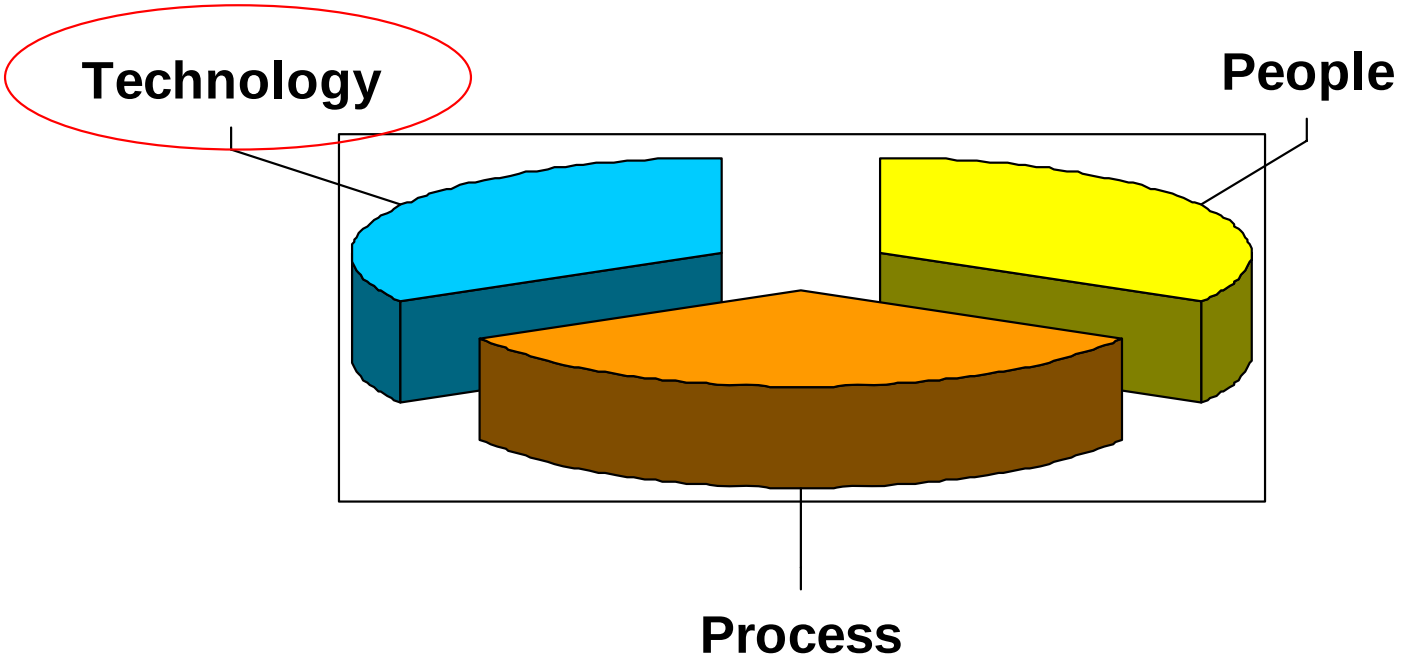
Key components of a successful project



Key components of a successful project

- Projects should not be viewed as IT projects but as business initiatives. The key components in any project are:
  - **Technology** - The technical platform provides an easy to use and easily maintainable infrastructure for business process automation
  - **Process -** The discipline to be followed to enable the completion of projects successfully, more than once!
  - **People** – The key resource in project completion is people. Right source, right skill, right time, right place.

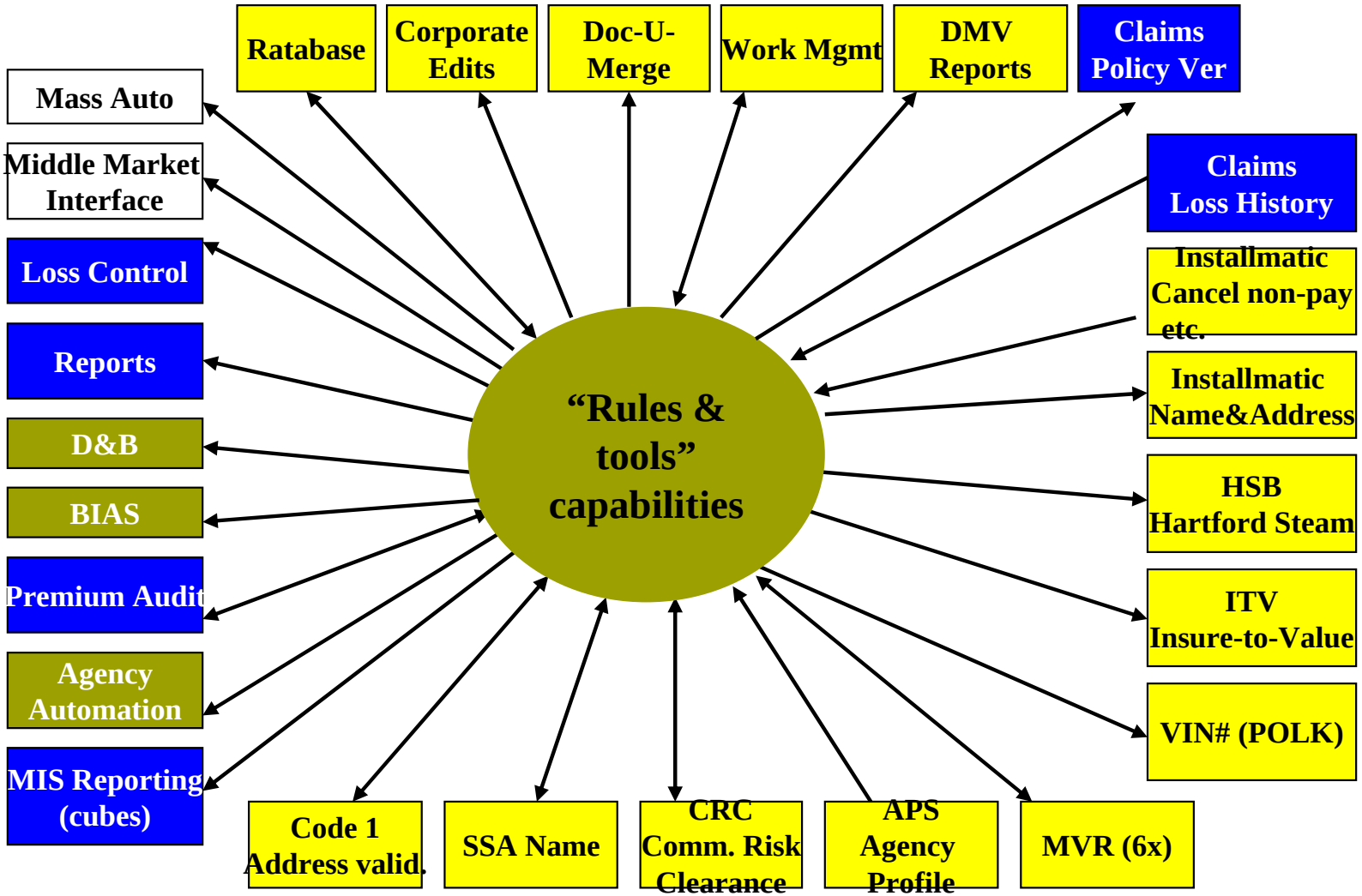
Key components of a successful project



Technology

- There is generally no sustainable competitive advantage inherent in any technology
- Good technology *really* can be purchased
- Good ideas are quickly adopted, modified and improved by "the next smart guy"
- That technology, now copied, becomes the baseline
- Keeping up with every technology change of your competitors can be costly and distracting (think of Moore's Law and its impact on impact on hardware upgrading)

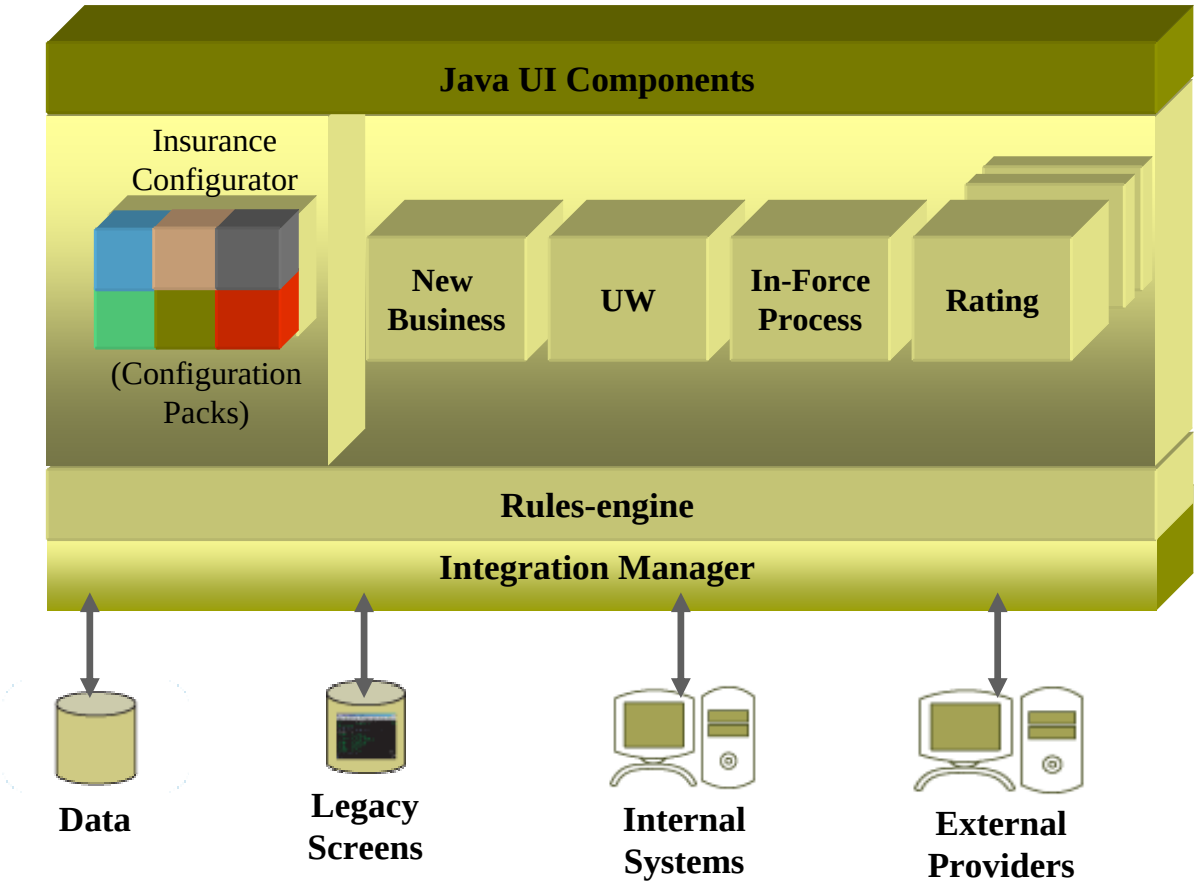
Technology needs to make many disparate systems appear to act in unison precisely and quickly



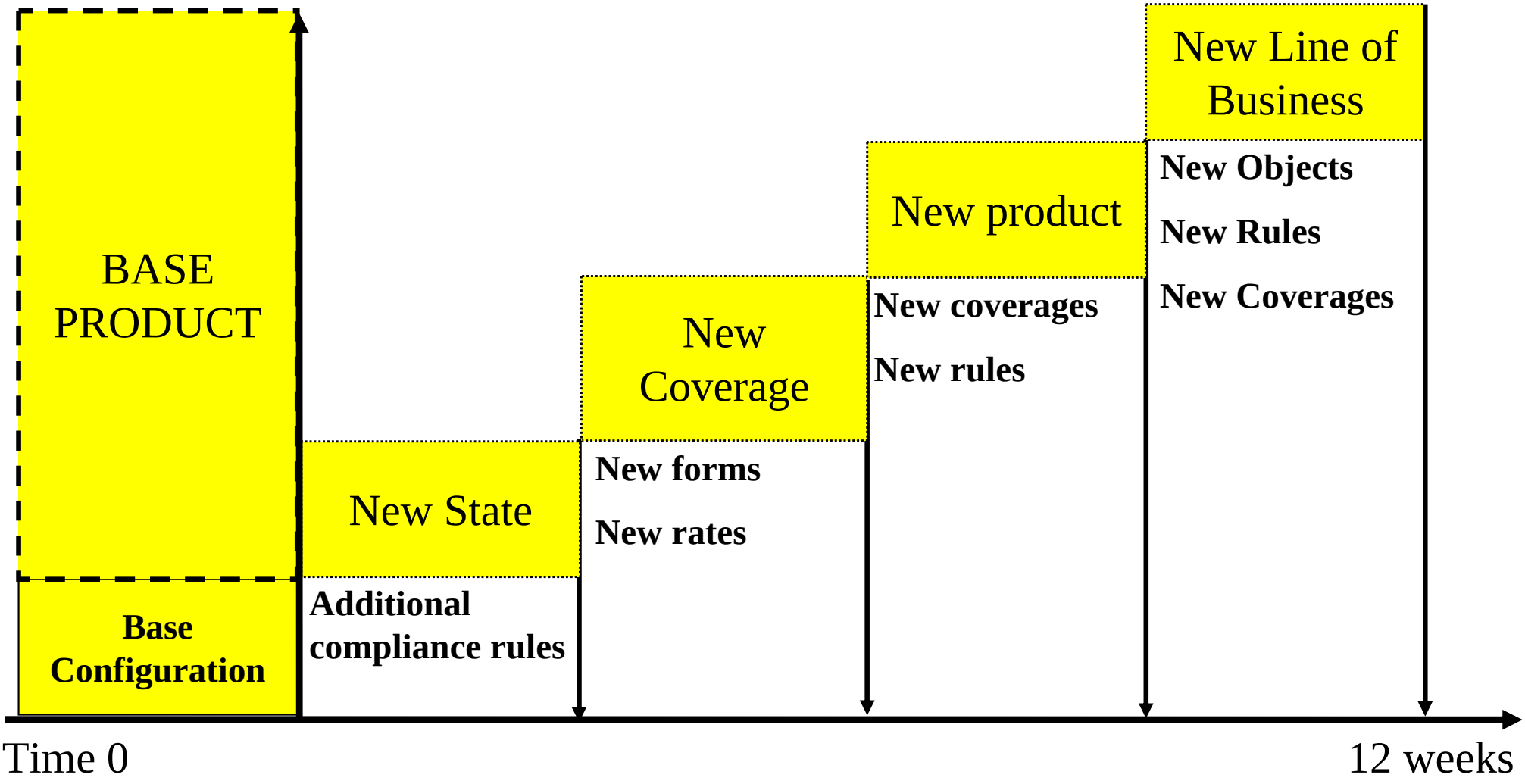
Technology must provide the framework to enable constant change and reduced cost

- Common elements should be shared as widely as possible:
  - User Interface
  - Management Information
  - Shared service systems (Billing, Print, Image)
- Minimum use of proprietary technology
- Maximum use of external tables
- Maximum use of Industry standard interfaces (e.g. ACORD for agency automation)

The technology enables configuration of lines of business using segments of already completed transaction processes (iterative development)



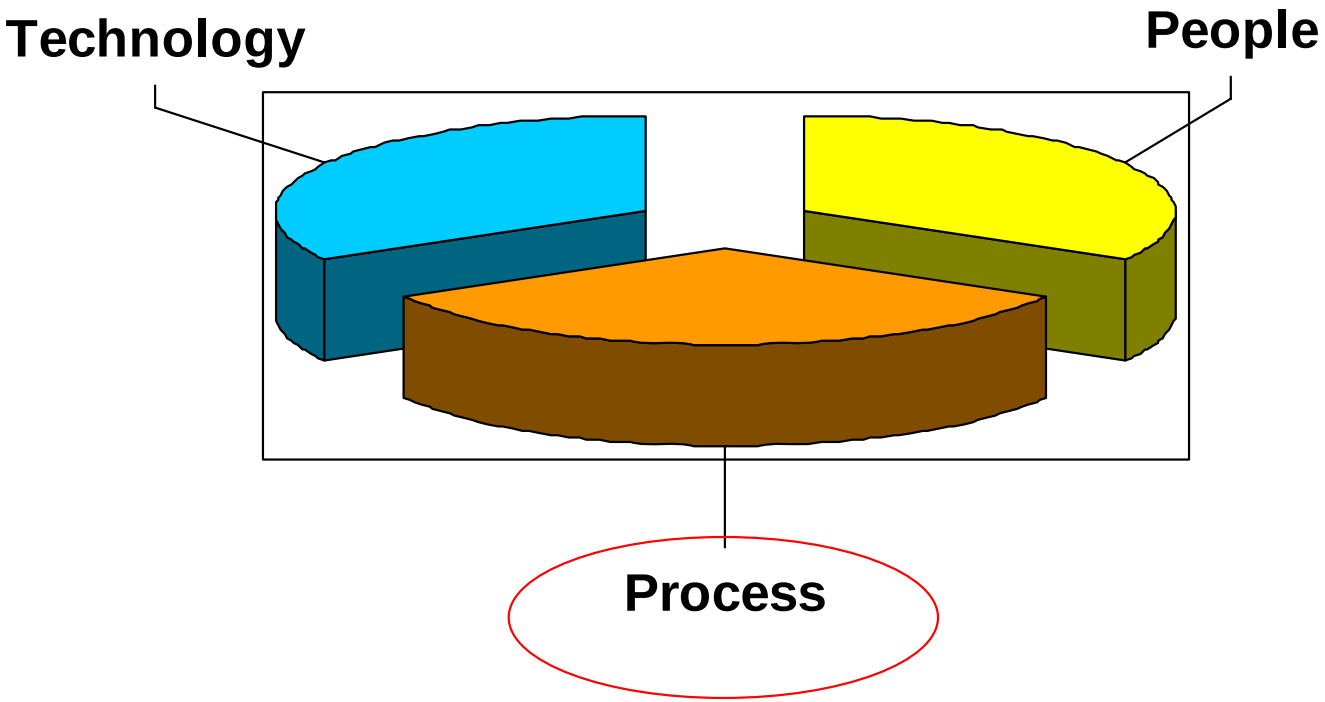
A “Base System” is created. Subsequent requirements are either changes to tables or “overlays” to the base.



Re-using large portions of the completed base system speeds up the configuration of subsequent lines of business / products / states

- Substantially shortens test cycle
- Dramatically improves quality
- Business users define configuration
- Existing rule sets govern transaction flow and behavior
- UI is designed to speed the transaction process
- Technology brings other inherent “rules & tools” that…
  - Rapidly develop new function
  - Ease complex integration requirements

Key components of a successful project



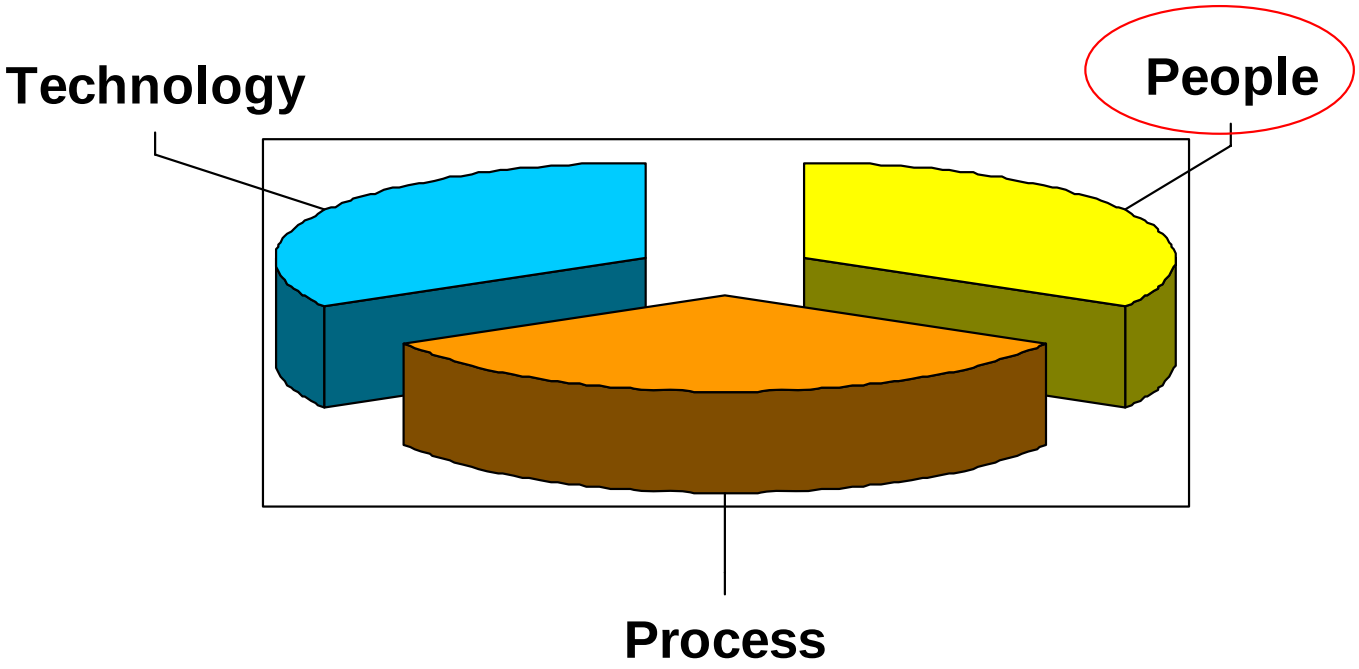
Methodology, Methodology, Methodology

- Discovery
- Analysis
- Design
- Construction
- Quality Assurance
- Deployment
- Support & Closeout

English Translation

- **Discovery -** Identify the problem to be solved
- **Analysis -** How the process will work best
- **Design -** How the solution will be implemented
- **Construct -** Build the solution
- **Quality Assurance -** Verify and Validate that the solution meets the business need
- **Deployment -** Deliver a usable solution to the process consumer (including training and documentation)
- **Support and Closeout -** Establish on-going support team and change process

Key components of a successful project



People

- Develop a more variable, and ultimately more efficient, cost structure
- Create a different mix of labor offering responsive, flexible support to our business clients
- Breakdown internal silos in IT where skills and people are able to move freely between systems and teams

People

- Increasing pressures are being placed upon IT groups to reduce costs while increasing capacity and delivery.
- Our IT organization has reduced staffing levels by 60% and halved our overall cost of operation. Output continues to grow and have material positive impact

People

- To continue to bring value to the business and sustain our efficiency level we need to think globally.
- New products and ideas continue to develop and competition requires ever faster and cheaper solutions

Were we successful?

- Introduced two commercial lines (package and auto) products to 9 States in 1 year (now available in 22 states)
- Scheduled the retirement of 7 legacy policy systems
- Added a new personal auto line on the same platform in 1 year to 6 States, followed by Homeowner's, watercraft, umbrella and a "true" package policy (now available in 13 states)
- Deployed auto product for the OneBeacon Agri division in 24 states (15 added in 2005 alone)

Were we successful?

- The cycle time from identifying an opportunity to deploying a solution continues to decrease
- IT expenses (all in) went from $184 mm in 2001 to $85mm (budget) in 2006
- Loss ratio on core (on-going) businesses is among the best in the industry
- OneBeacon combined ratio for 2005 was 98 , inclusive of all operations

Appendix

- What did Gordon Moore really say?
- Capability Maturity Model?
- Web View of Policy System Production model

Moore’s Law (what he really said)

- The August 19, 1965 issue of *Electronics* magazine published the original article on semiconductor device scaling written by one Gordon Moore, who was employed as the director of Fairchild Semiconductor's R&D laboratories. Moore's article, entitled "Cramming more components onto integrated circuits," predicted an exponential growth in the number of "components" (meaning transistors, diodes, resistors, and capacitors) that would be built on an integrated circuit (IC) as semiconductor fabrication expertise grew. His initial observation was that the component-doubling time was 12 months, which he later revised to a somewhat slower 24 months. Since then, others have tried to more closely fit his prediction to actual results by changing the doubling interval to 18 months.

Capability Maturity Model

- **Capability Maturity Model**

  Background. The Capability Maturity Model (CMM) was developed by the Software Engineering Institute (SEI), Carnegie Mellon University, Pittsburgh, PA beginning in 1986. This effort was initiated in response to the request of the U.S. Government to provide a method for assessing the capability of its contractors. The initial release of the CMM, Version 1.0, was reviewed and used extensively during 1991 and 1992. Many improvements were made, and the current release, Version 1.1, was made available in February 1993.

- ***Purpose of the CMM.*** *The CMM is a framework that describes the key elements of an effective process. It provides a foundation for process improvement. The CMM describes an evolutionary improvement path from an ad hoc, immature process to a mature, disciplined process. The process below describes the CMM. It shows the five levels of progressive process maturity (Initial, Repeatable, Defined, Managed, and Optimizing), and indicates the Process Areas (PA) that are addressed at each level.*
- **The CMM covers practices for planning, engineering, and managing development and maintenance activities. When followed, these key practices improve the ability of organizations to meet goals for cost, schedule, functionality, and product quality. The goal is to improve efficiency, return on investment, and effectiveness.**
- **The CMM establishes a yardstick against which it is possible to judge, in a repeatable way, the maturity of an organization's process and compare it to the state of the practice of the industry. The CMM is also used extensively by organizations to identify process improvement needs, to plan and prioritize improvements, and to evaluate improvement progress.**
- **The CMM has become a de facto industry standard for assessing and improving processes. Through the CMM, the SEI and community have put in place an effective means for modeling, defining, and measuring the maturity of the processes used by process engineering and development professionals. The CMM has been widely adopted and used by the U.S. Government, industry, and academia.**

Capability Maturity Model

- **Process Areas By Maturity Level**

Level 1-2 (Repeatable)
- **Configuration Management**
- **Quality Assurance**
- **Subcontract Management**
- **Project Tracking and Oversight**
- **Subcontract Management**
- **Project Planning**
- **Requirements Management**

Level 3 (Defined)
- **Peer Reviews**
- **Intergroup Coordination**
- **Product Engineering**
- **Integrated Software Management**
- **Training Program**
- **Organization Process Definition**
- **Organizational Process Focus**

Level 4 (Managed)
- **Quality Management**
- **Process Measurement and Analysis**

Level 5 (Optimizing)
- **Process Change Management**
- **Technology Change Management**
- **Defect Prevention**

- **Note. Level 1-2 is the disciplined process; Level 2-3 is the standard consistent practice; Level 3-4 is the predictable process; and Level 4-5 is the continuously improving process.**

Web View Production Model