

Executive **SUMMARY**

Have Suites Won the **POLICY ADMIN WAR?**



Drivers for core system replacement include **rising customer expectations** and the corresponding pressure to respond with **greater product customization.**

With core systems replacement and consolidation rampant throughout the insurance industry, a recent web seminar hosted by Insurance Networking News compared two competing approaches: standardizing on an end-to-end policy administration suite from a single vendor versus mixing and matching best-of-breed solutions from multiple sources.

Research from consulting firm Strategy Meets Action indicates that no less than 78 percent of P&C insurers are currently engaged or have already completed a core system replacement, with between 25 and 30 percent claiming that their core systems platform is now fully-modernized.

The most important drivers of this activity, according to INN editor-in-chief Nathan Golia, are rising customer expectations and the corresponding pressure on insurers to respond with greater product customization. While this is mainly impacting insurers' personal lines of business, at present, the commercial side of the business is beginning to feel the same pressures as well.

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Simultaneous Replacements

Instead of back-to-back implementations, more than half of all P&C insurers are replacing all three of their major core systems—policy admin, billing and claims—simultaneously, and the breadth and complexity of these projects incline them towards choosing a suite over best-of-breed. According to SMA, “The momentum towards suite plays makes them the most significant number of deals in the market.” The consultancy estimates that 20 percent of insurers are installing all suite components at the same time, while 34 percent are staggering the implementation.

Some additional findings from market researcher Celent add to the picture:

- Core systems replacement activity is strongest among the largest insurance companies.
- Smaller insurance companies tend to have already deployed a modern system or are close to the end of the process.
- Insurers currently spend about 60 percent of their IT budget on maintenance, which makes replacing their core system with more modern and flexible technology that can be more readily adapted to the demands of the 21st Century digital customer all the more crucial.
- Business process outsourcing (BPO), software as a service (SaaS) and other cloud models are also gaining popularity, as insurers look to get out of the mainframe business.

At many companies, employees at all levels are afraid that they will be displaced by the replacement systems, leading them to passively resist the new technology. Noting that this can seriously undermine an insurer’s conversion efforts, the industry consultancy Novarica recommends that while most insurers have taken great pains to get buy-in and sponsorship from top management, they also need to place much greater emphasis on getting buy-in from the rank and file. Even though employees are “required to accept change,” Novarica stresses that their active cooperation is critical to success of a core systems replacement.

Two P&C insurers that are currently engaged in a core systems upgrade are Oregon Mutual Insurance, a \$155 million regional mutual company based in McMinnville, Oregon, and Great American Insurance Group, a large specialty insurer with about 30 different business units headquartered in Cincinnati and which began upgrading its policy, billing and claims systems in 2006.

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A Tale of Two Insurers

Speaking during the webinar, Bryan Fowler, Oregon Mutual's CIO, said his company is taking a suite approach to its core systems replacement, which is in the very early stages. The suite will replace a set of homegrown systems, some of which were originally based on off-the-shelf software but have since been customized "beyond recognition," and others like billing and claims that were developed internally.

In contrast, Jane Bracken, a Divisional Senior Vice-President at Great American, explained that the multinational firm is pursuing a best-of-breed strategy, making use of various vendor offerings as well as applications that were developed in-house.

Both Bracken and Fowler agreed that undertaking a core systems transformation is no longer optional for most insurers. Driven by the high cost of maintenance and competitive pressures, companies have no choice but to adopt more integrated and flexible technology that will allow them to respond much more quickly to the marketplace.

In deciding which approach to take—a single vendor suite or best-of-breed solutions—Bracken made the point that an insurer really needs to consider its book of business. If it has a great diversity of product lines with unique requirements for each, then adopting a best-of-breed strategy will allow it to accommodate this broader set of needs. But if its offerings have less variability, employing a suite may be a less demanding choice, since it is much easier to integrate the different applications.

Suites are known for their ease of integration and unified data models, Fowler concurred. Using a variety of best-of-breed solutions, on the other hand, means that it becomes the insurer's responsibility to ensure that data can be shared with different applications. For a smaller company with fewer IT resources, that's a tall order, he said.

Suites may also be better suited to smaller insurers and their more limited IT capabilities, Fowler noted, simply because there are fewer vendors to manage.

The use of cloud-based services is another point of difference. Both Fowler and Bracken agree that running core applications through the cloud can be more demanding in terms of data management and also requires insurers to negotiate and enforce service-level agreements (SLAs) with their service providers.

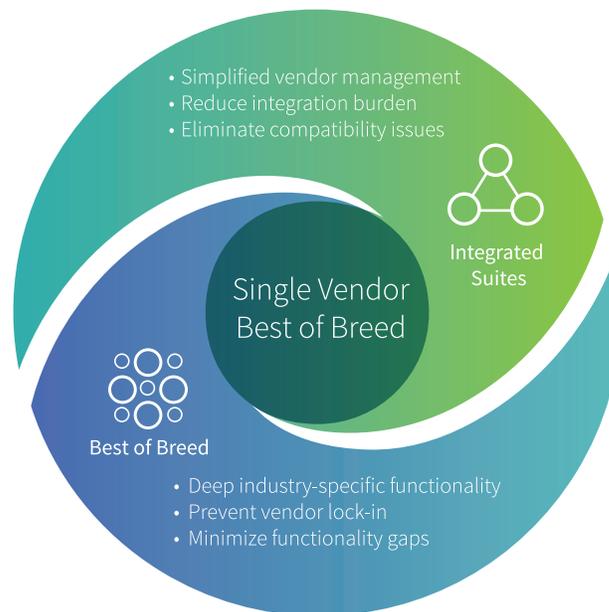
But whereas Bracken believes the added management complexity outweighs any benefits, Fowler sees significant advantages to the cloud model in terms of resource efficiency and cost. Oregon Mutual is currently using a cloud service for its personal lines rating application and expects to gain further resource efficiencies and cost savings by using a private cloud to host its new core systems.

The Best of Both Worlds

A third approach referred to by Gartner Group as “single vendor best of breed,” was described by Philippe Lafreniere a senior vice president at EIS Group, the webinar’s sponsor.

This “best of both worlds” approach reduces integration risk and vendor complexity on the one hand, but provides a modular approach that allows insurers to support multiple lines, distribution methods and communication channels, as well as the flexibility to transform at their own pace.

It also provides insurers with the option of deploying their core systems on-premise and tightly under their control, or hosting them through the cloud to take advantage of the expertise and economies of scale offered by a service provider like EIS.



A More Responsive Infrastructure

What is the upshot for insurers? How will core system modernization—be it suite-based or best-of-breed—impact the insurance industry? Whether it’s the internet of things, telematics or usage-based insurance, the industry landscape and the expectations of customers and agents are all changing with great rapidity. That makes it imperative, Fowler noted, for insurance companies to be able to adjust and respond to marketplace shifts in very short order, and the basis for this is having a highly flexible and adaptive technology infrastructure.

Bracken sees the same necessity. Pointing to mobile insurance applications as an example, she recounted that Great American was already a year or two into its upgrade when the first of these apps began to appear. Fortunately, because of the agile nature of its new architecture, the insurer was able to react quickly and incorporate the new capabilities without retracing its steps.