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Entering The Age Of Insurance Policy Administration As-a-Service

August 2017 | Author: **Reetika Joshi, Research Director, Operations & Analytics Strategies, HfS Research**

Introduction

As an industry, we've been writing and talking about legacy technology constraints and challenges for several years in insurance. Carriers have been well aware of the impending expiry dates for their ageing platforms, with so many still using systems today that were designed 40-50 years ago. As a result, their key priority for the next few years is sun-setting and replacing these systems.

Our recent interactions with the insurance line-of-business as well as technology leaders suggest that they seek guidance about how their peers are navigating industry disruption to be able to make more informed decisions about core platform transformation. HfS Research recently undertook a research study to shed some light on this industry shift, wherein we surveyed 50 property and casualty (P&C) insurance executives in North America. These leaders are making and/or influencing buying decisions related to technology and services around insurance policy administration systems.

In this paper, we highlight the current Policy Administration System (PAS) investments and experience of these carriers, their perceptions of As-a-Service solutions, and most importantly, their medium to long-term expectations and preparations for the changing insurance technology landscape. We also present the key trends and drivers for core insurance administration systems moving to As-a-Service delivery.

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P&C Carriers Seek Flexible, Scalable Tech Infrastructure…But Only About a Third Have Started Down the Path

Today, North American property and casualty carriers participate in an industry that is undergoing rapid change, which presents a particularly challenging competitive environment. The United States P&C market, for example, saw its net income drop 42.2% in the first quarter of 2017, resulting in profitability taking a hit. One of the biggest reasons behind this drop is the industry's challenges with risk management. Determining "good risk" is increasingly challenging due to more hard-to-predict catastrophic events that greatly impact carrier profitability.

Also, consumer preferences and expectations for insurance have evolved, creating complex market demands over the last few years. Customers expect more tailored and personalized insurance policies, more omnichannel interactions and experiences, and above all, highly competitive rates. Meanwhile, carriers struggle to build the kind of flexibility they need to provide these features to customers while also balancing cost optimization initiatives.

Exhibit 1: Key Industry Factors Driving Insurance Carriers To Rethink Operating Models

Source: HfS Research, 2017

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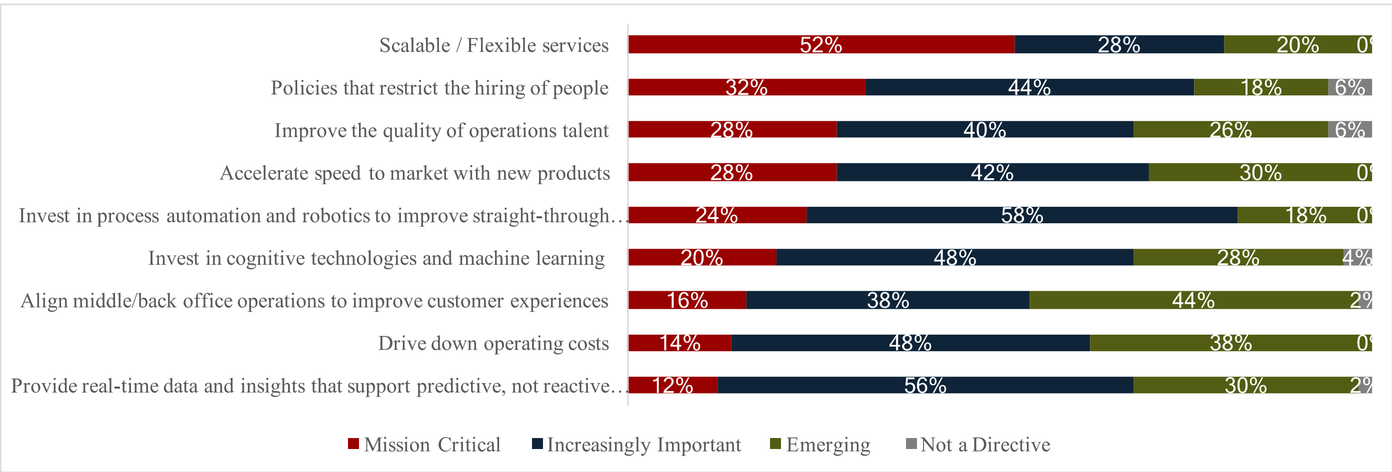
When we asked our survey respondents about the most critical C-suite directives that affect their operations and technology strategy, it was not surprising that scalable/flexible services topped the list for just over half (52%) the carriers (see Exhibit 2). Achieving this overarching goal would enable carriers to enact a few other related directives, such as growing revenues without growing operations and maintaining the workforce they already have (32% considered critical), improving the quality of operations talent (28%), and improving speed to market for new products (28%).

Exhibit 2: Carriers Believe Scalable/Flexible Services Are Mission Critical For Ops & Tech Strategy

How critical are the following C-Suite directives to your operations and technology strategy?



Source: HfS Research, 2017, n = 50 U.S. P&C decision makers

One of the most important contributing factors towards achieving these goals is an enterprise's ability to write off legacy and become more agile and flexible with its systems, processes, and people. At HfS Research, we call out this ability to write off legacy as one of the Eight Ideals of the As-a-Service Economy—the use of talent and technology to drive new business outcomes. Our research on this subject points out, "When do you call it a day and write something off as technical debt and look at platform-based services that can take you into a different layer of business value? A small but growing number of enterprises are realizing that they need to replace or even abandon their legacy systems and services and are preparing to make the shift."

For P&C insurance carriers, the question is: At what stage do you decide to retire aging platforms, and what should you replace them with to really future-proof your investments? Our survey reveals that most (86%) carriers are either planning or already executing PAS transformation (see Exhibit 3). Of these, just over a third (36%) of the respondents have bought a new PAS and are at various stages of implementation. Only 4% of these respondents are across the finish line. The biggest majority of respondents, at 50%, have legacy platforms that they are planning to retire in the next few years or are actively looking for replacements.

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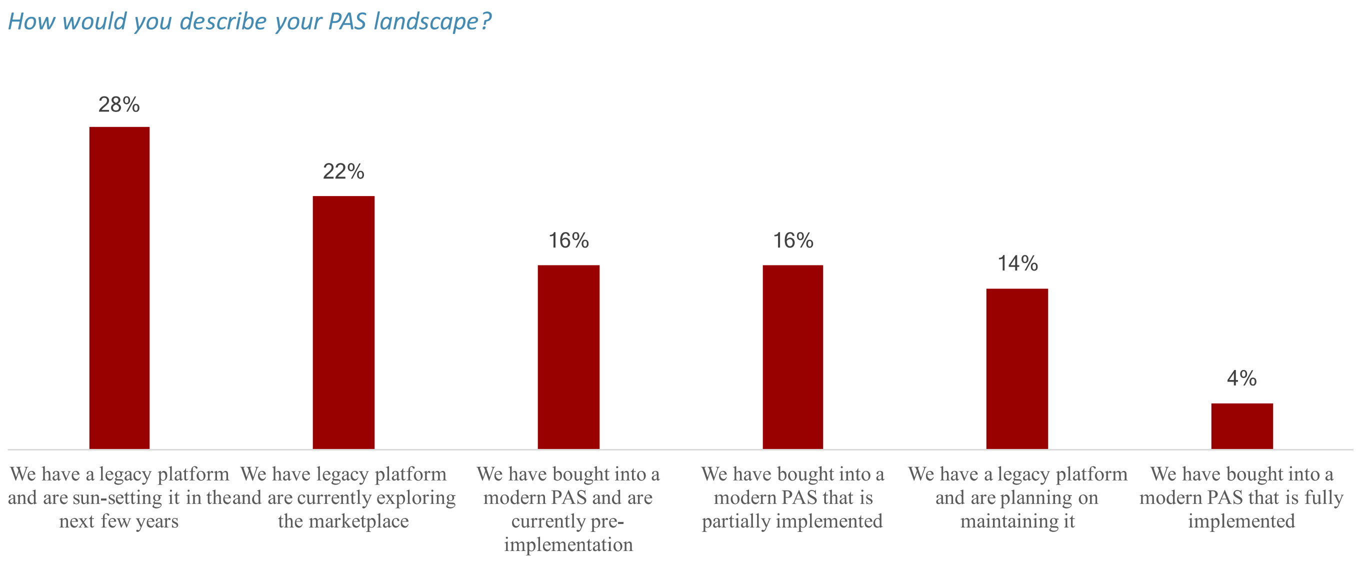
Exhibit 3: Most P&C Carriers Are Planning And Executing Their PAS Transformation



Source: HfS Research, 2017, n = 50 U.S. P&C decision makers

It is a telling sign when only 14% of respondents plan to maintain their legacy systems for policy administration. Legacy systems typically limit growth because of inflexibility to adapting and/or creating new products. Further, they tend to struggle with capitalizing on a time to market advantage of any changes. During our research, the Director at one of the largest Canadian financial institutions brought up the constant struggle with managing legacy PAS, saying "We live with legacy and are always seeking help from expert tech partners around automation and digitization to help us manage our PAS. The initiative has been led by us over the last few years as we plan and assess the cost of running legacy apps and eventually to modernize them." Their focus on process automation as a stop-gap fix to put off their systems replacement is an increasingly common scenario. Investments in process automation and robotics to improve straight-through processing is viewed by 26% as mission-critical, while a further 58% see it as an increasingly important C-suite directive (Exhibit 2).

"We live with legacy and are always seeking help from expert technology partners around automation and digitization to help us manage our PAS."

- Director, Canadian financial institution

Automation is highly relevant to PAS transformation in the long term with technology advancements around AI and machine learning. But in the short term, process automation and robotics are viewed as a means of prolonging system lifespans. Carriers must keep in mind that these tools can carry out tasks more efficiently, but they do not remove challenges such as the ongoing costs to maintain multiple systems or gain new capabilities.

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One of the biggest challenges when it comes to the cost of running legacy applications is the high-customized nature of these systems. Over 60% of our respondents have internally developed core policy administration systems. These platforms now have new demands placed on them that they weren't designed to address, such as being linked with APIs.

With the level of market consolidation seen in the last few years, many carriers also have several disjointed and disparate assets in the backend that aren't integrated beyond the front office. In many cases, carriers will continue to acquire new blocks even in this scenario, creating perpetual backlogs from a technology and operations standpoint.

This disconnect between the front and back office is a speed bump on the road to transformation for many carriers today that are trying to differentiate themselves by delivering better customer experience. Most respondents in our analysis (88%) had multiple PAS across their lines of business, with 36% of these owning between six and nine core systems today.

The Promise of PAS As-a-Service: Rapid Implementation, Reduced TCO

As technological advancements continue to make their way to this industry, carriers are hopeful about writing off their "technical debt" and gaining the means to develop a scalable, flexible infrastructure. There are a number of benefits that come with systems replacement, and P&C carriers consider most of them to be important drivers (see Exhibit 4). Cost reduction is the most important benefit that carriers seek (96% consider important), which is unsurprising given the expense ratio challenges we outlined earlier. What is interesting is how some factors are almost equally important as cost.

Carriers are making the decision to replace systems to gain more workforce agility (96% consider important), time to market (98%), actionable data for operational insights (92%), and configurability (94%). These elements are critical for being more responsive—even predictive—with customers, thereby increasing the value of the carrier to its members.

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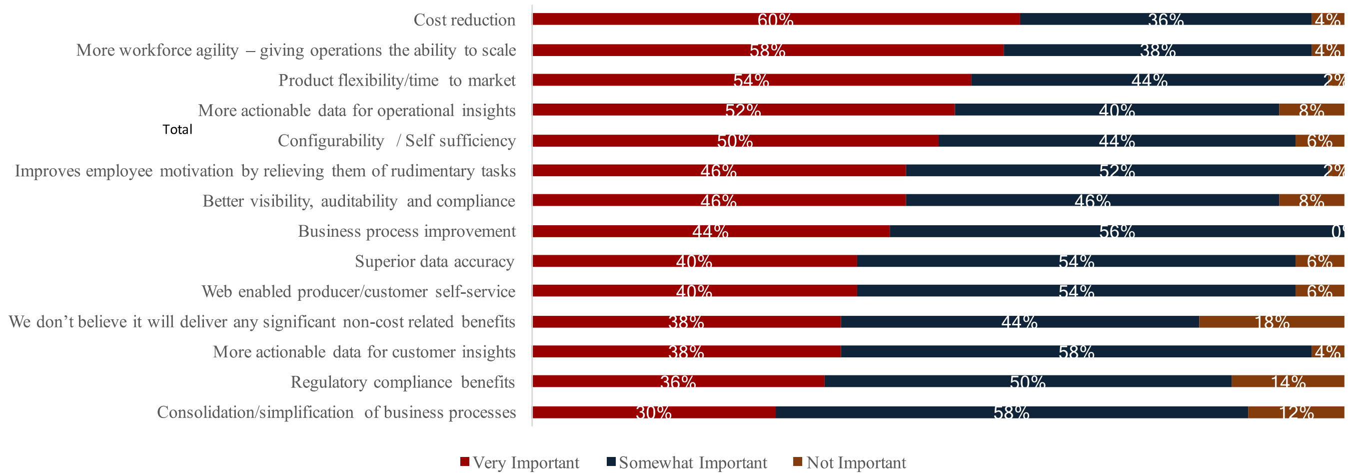
Exhibit 4: Cost Reduction Isn't The Only Driver For PAS Transformation

How would you rate the relative importance of the following benefits of system replacement?



Source: HfS Research, 2017, n = 50 U.S. P&C decision makers

Most legacy policy administration systems and their recent replacements have been traditionally procured for on-premise implementation. However, today there are options for core systems such as PAS to be delivered in software as-a-service (SaaS) models. The key tenet of a PAS As-a-Service solution is that instead of an initial license and upfront implementation expense, the carrier signs up for a pay-as-you-go subscription. Additionally, the carrier does not have to retain application maintenance staff. Instead, the software vendor is tasked with maintenance and regular upgrades and updates.

With a PAS As-a-Service solution, the carrier prioritizes configuration instead of heavy customization to onboard and administer their products. With this environment, carriers can write off legacy and become more agile, competitive and able to take decisions as they arise without incurring further "technical debts."

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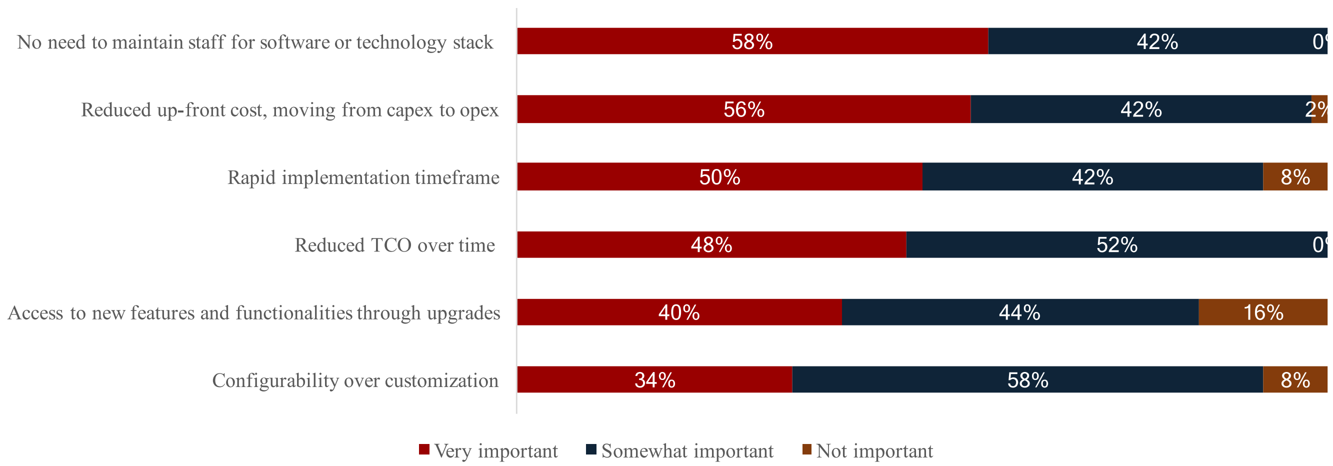
Exhibit 5: Speed, Variablized Cost And External Talent Are Most Appealing PAS As-a-Service Benefits

What are the most important benefits of As-a-Service delivery that would significantly improve the performance of your core PAS?



Source: HfS Research, 2017, n = 50 U.S. P&C decision makers

We explored the concept of delivering PAS As-a-Service as a central theme in our research, from a technology as well as a service delivery standpoint. We found that P&C carriers today value multiple aspects of modern policy administration systems. The respondents believe the most important benefits of As-a-Service delivery are: the ability to access external talent instead of having to maintain staff (58% considered Very Important), the reduced up-front cost from subscription-type services (56%), and a rapid implementation timeframe (50%).

During our conversation, Jason Lichtenthal, CIO at Pure Insurance, highlighted the importance of implementation timeframes in their work with OneShield, a core insurance platform provider. He stresses, “Speed to market is without question our biggest priority. When I look at where we are, working across different LoBs…we can get into a new line of business in two months and quickly start wrapping up multiple states across the company. I don’t know how we could have gone live with any other PAS at this pace.”

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- Jason Lichtenthal, CIO, Pure Insurance

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Notably, 100% of the P&C carriers in our study viewed their Total Cost of Ownership (TCO) as an important metric in their PAS As-a-Service decision-making. When asked further about the ranges of cost savings expected to justify shifting to an As-a-Service model, their responses were:

» Short-term return: Expectations were varied on up-front savings. 32% expected 1-4% savings upfront, 36% anticipate 5-9% savings, whereas 32% expected 10-19% savings.

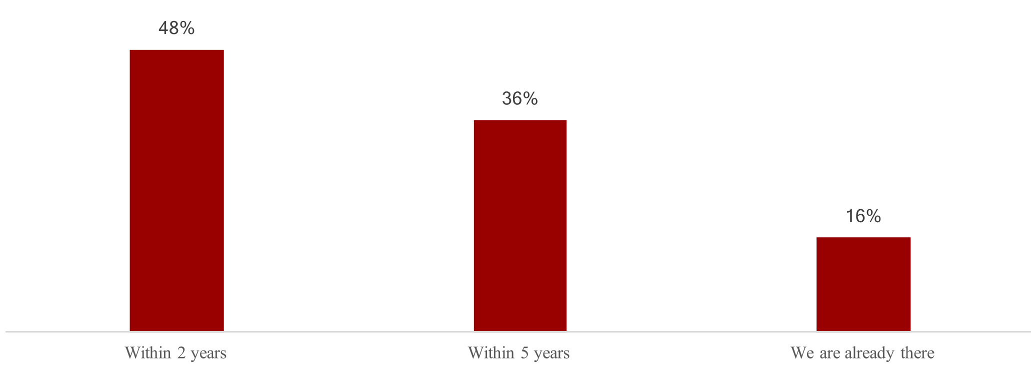
» Longer-term return: Carriers expect savings to go up over the next three years towards a reduced TCO with time. The majority of carriers (54%) expect 20-29% savings in order to justify shifting to an As-a-Service model. A mere 6% expect a 5-9% saving in the next three years, and a further 38% expect 10-19% savings.

The Medium-Term Journey to As-a-Service And A Digital Future

Given the stated needs for flexibility, cost savings, and speed to market, HfS believes that the move to PAS As-a-Service is imminent for P&C carriers. We are entering an age where the market demands are driving carriers to seek opportunities for transformation with a greater level of openness than before. Simultaneously, a new breed of technological capabilities is being brought to bear by disruptive technology vendors. When we asked our survey respondents about the time frame within which they believe core processes will be delivered As-a-Service, the results were decisive. This is a two-to-five year effort for the majority of the industry (see Exhibit 6).

Exhibit 6: Two-Five Year Journey To PAS As-a-Service

How quickly will your core PAS processes be delivered 'As-a-Service'?



Source: HfS Research, 2017, n = 50 U.S. P&C decision makers

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Only a small subset of carriers (16%) are already operating in an As-a-Service model currently. The key challenges that the market needs to overcome are a blend of internal and external factors:

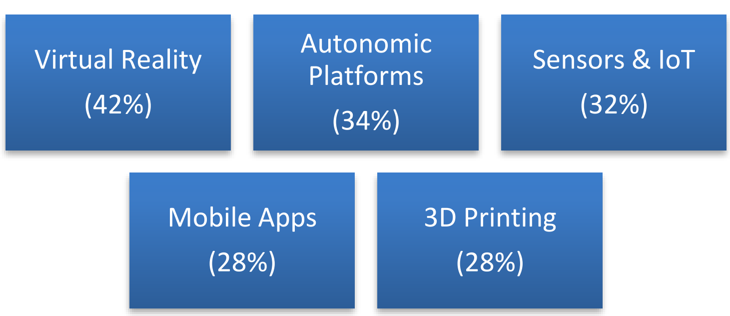
- » Existing investments in the license, customization, and integration of the current system (38% considered a top 3 obstacle)
- » Being unconvinced of vendor capabilities in this area (32%)
- » Business leaders not being ready for such a large cultural change (26%)

On the supply side, the technology partners need to make more investments in developing compelling demonstrations of their capabilities to build client confidence. Carriers are primarily concerned about their sunk costs in existing infrastructure, for which HfS recommends a TCO analysis to truly assess the cost to upgrade. Lastly, an initiative this big will involve a shift in mindset across the leadership, management, and employee levels, and carriers have rightly outlined cultural readiness as a key challenge. Notably, only 2% are not confident about the security of cloud technology and consider it a challenge.

Reassuringly, the majority of carriers (98%) don't expect high resistance from their stakeholders towards adopting cloud/As-a-Service technology. As the Director of one of the largest personal lines insurer in the US outlined in our research, "We've looked at As-a-Service style cloud-based solutions in the past when we've acquired companies or launched products. Our direction in general is that everything needs to go to the cloud instead of data centers and disaster recovery over time!"

Along with cloud and SaaS technology, P&C carriers are actively exploring other emerging technologies that they can use to create competitive differentiation. Among that list of digital technologies, virtual reality, autonomic platforms, and sensors/IoT emerge as mission-critical (see Exhibit 7).

Exhibit 7: Digital Technologies That Carriers Consider "Mission Critical"



Source: HfS Research, 2017, n = 50 U.S. P&C decision makers

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The diversity of the technologies is a testament to the wide range of "insurtech" disruption coming into the industry from startups, think tanks, and technology giants alike. In response to these seismic technological shifts, some carriers (36%) are investing in setting up an innovation labs/CoEs to explore emerging technologies, whereas some (36%) are investing in incubators and bootcamps to connect with startups.

> "We have worked on initiatives like our direct-to-agent portal that brings in self-service and ties into the agency management systems. If keystrokes are our currency, how can we move towards becoming the cheapest option?"
>
> - Greg Butler, CEO, ICAT

The pressure to stay on top of these trends is evidently driving carriers to action. In our research, HfS noted the progress on emerging technologies from a large American insurer group. Their Head of Innovation mentioned, "We have an innovation lab where we are exploring drones and AI technology for the closing process…it could be useful for underwriting too. We picked VR and did some interesting work with immersive training, which was really exciting for our younger employees in particular." While his organization has yet to figure out how to bring these technologies into what they call "core IT," the innovation head stressed the importance of ultimately finding a way to bring value to the end customer/employee with whatever tools a carrier does experiment with.

Greg Butler, CEO at ICAT, elaborates, "The insurance industry is ripe for a technology makeover, making it especially easier to do for personal lines. There are things that can disrupt our business drastically and we need to pay attention. We have worked on initiatives like our direct-to-agent portal that brings in self-service and ties into the agency management systems. If keystrokes are our currency, how can we move towards becoming the cheapest option?" On insurtech, Greg mentions that he "does talk to partners like Oneshield to connect on market trends and explore how to deliver collaboratively."

Linking Business Outcomes to Technology Decisions Will Advance the As-a-Service Discussion

With a 2-5 year journey outlined by most carriers, PAS transformation towards As-a-Service is no longer just on the horizon but an emerging area for growth. As-a-Service removes the technology integration weaknesses and dysfunctions in legacy environments, coupled with a new commercial model of usage-based subscriptions. It needs to be viewed more holistically in line with other digital technology initiatives —in collaboration with major technology partners.

What is key in making decisions to write off legacy is aligning IT stakeholders with business to define the outcomes needed in the next ten years of insurance, which are wildly different from the past. During our conversation, Liza Smith, SVP, Global Sales & Marketing at OneShield, highlighted how even the task of evaluating technology choices needs to be approached differently with these outcomes in mind. She explained, "We're experiencing an exciting change in the conversation for insurers evaluating As-A-Service

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platforms vs traditional evaluations. Shifting from technology acquisition being viewed as IT-based projects, with As-A-Service the main focus of the evaluations are now on the business of insurance and how to be a more responsive operation. Customer experience is crucial to insurers, the discussion is always centered on responsiveness and product delivery such as how quickly can we turn out new products? How do we stay current and prepare for the unknowns? How do we participate in the maintenance of our products and how do we delight our customers through our service? This shift clearly centers around operational performance, capitalizing on technology flexibility, and improving client experience and it is exciting to be a part of the changes."

While we see more traction for PAS As-a-Service with mid-size and niche P&C carriers, HfS advises that enterprise clients consider this option, particularly when entering a new market/region or standing up operations for new products and market opportunities. In building an agile enterprise with a flexible operating model, you need scalable, stable core operations platforms that will grow with you as your markets, your products, and your needs change. The need to become more customer-centric is only becoming stronger, a move that needs to be reflected not just in customer service operations, but their linkages to a carrier's core systems and supporting technologies such as autonomic platforms. With digital technologies continuing to reshape the possibilities for P&C insurance, we see high market opportunity for carriers that can demonstrate strategic agility in an As-a-Service world.

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Methodology

This study is based on the responses of 50 participants that have involvement in making and/or influencing buying decisions related to technology and services around insurance policy administration systems. The interviewing was conducted between May-June 2017 with a combination of telephone and online surveys, with the telephone interviewing included to follow up and ensure better responses to open more in-depth questions.

The specification of the respondents:

- The respondents were from mid-sized to large P&C insurance carriers in North America, primarily in the United States with some participation from Canada.
- The respondents were all director level and above.
- The respondent's qualification for the study was determined by answers to two qualification questions regarding influence and understanding of the subject in addition to the demographic information supplied.

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About the Author

Reetika Joshi

Reetika Joshi is Research Director at HfS Research. She currently tracks verticalized technology-enabled operations in insurance. Her research coverage also includes enterprise analytics services and its evolution towards Accessible & Actionable Data within client organizations. She regularly contributes to HfS' research content in the form of HfS Blueprint reports, PoVs and Soundbites. She also supports custom research and strategy projects; analyzing data, supporting client inquiry, conducting regular discussions and briefings with both buyers and service providers, providing consultative, analytical and expert support to HfS clients.

Prior to HfS, Reetika worked in the sourcing research wing of business research and consulting firm ValueNotes. Her responsibilities as Project Manager included research product design and development, managing custom research engagements, developing thought leadership through targeted content and community interaction, and business development support. She was also responsible for driving the unit's web and social media strategy and presence.

Based in Cambridge, MA, Reetika has undertaken several research assignments across the outsourcing spectrum, including market studies in niche areas such as analytics, medical transcription, market research and e-learning. She has delivered bespoke research engagements including competitive intelligence studies, market and investment opportunity assessments, demand-side surveys and marketing communication optimization for global IT and business operations buyers, providers, consultants and investors. Her work has appeared in many industry-relevant publications and websites, including Outsourcing magazine, Global Services Media and the Horses for Sources blog. She has presented her views at various industry conferences and webcasts.

Reetika has completed her Masters in Marketing Management with distinction from Aston University, UK, receiving Beta Gamma Sigma honors. Prior to this, she received her Bachelor's in Business Administration with distinction from Symbiosis International University, India.

On a more personal note, she enjoys reading fantasy series, travelling to world heritage sites and strategy/simulation gaming.

Reetika can be reached at Reetika.Joshi@hfsresearch.com and followed on Twitter at @JoshiReetika

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HfS Research: The Services Research Company™

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HfS coined the terms "The As-a-Service Economy" and "OneOffice™", which describe HfS Research's vision for the future of global operations and the impact of cognitive automation and digital technologies. HfS' vision is centered on creating the digital customer experience and an intelligent, single office to enable and support it. HfS' core mission is about helping clients achieve an integrated support operation that has the digital prowess to enable its organization to meet customer demand - as and when that demand happens. With specific practice areas focused on the Digitization of business processes and Design Thinking, Intelligent Automation and Outsourcing, HfS analysts apply industry knowledge in healthcare, life sciences, retail, manufacturing, energy, utilities, telecommunications and financial services to form a real viewpoint of the future of business operations.

HfS facilitates a thriving and dynamic global community which contributes to its research and stages several OneOffice™ Summits each year, bringing together senior service buyers, advisors, providers and technology suppliers in an intimate forum to develop collective recommendations for the industry and add depth to the firm's research publications and analyst offerings.

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HfS was named Analyst Firm of the Year for 2016, alongside Gartner and Forrester, by leading analyst observer InfluencerRelations.

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About OneShield

OneShield Software delivers business solutions to global insurance and broader financial services industry. Deployed in the cloud our portfolio of standalone, subscription and As-A-Service products include enterprise-class policy-management, billing, claims, rating, product configuration, business intelligence, and smart analytics. OneShield automates and simplifies the complexities of core systems with targeted solutions, seamless upgrades, collaborative implementations, and lower total cost of ownership.

With corporate headquarters in Marlborough, MA, and offices in India, Canada, and Australia, OneShield has a total of 46 products in production across the P&C, life, health insurance & specialty markets.

OneShield SOFTWARE

We would like to extend special thanks to OneShield (www.oneshield.com) for their support in this study.

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