Rating Modernization:

Leading Force Behind P&C Core Transformation Projects

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Table of Contents

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Executive Overview

P&C carriers are embarking on a transformation journey replacing their core legacy system in an effort to provide more flexibility, improve speed-to-market for new product introductions, and increase revenue growth and profitability. Most carriers are focusing on replacing their policy administration system (PAS) to leapfrog competition.

However, the PAS projects are not easy. They are expensive and risky and many significant and high-profile PAS replacement programs have ended in failure. This paper will discuss the rise of PAS transformation project, why carriers should start with rating consolidation first to reduce risk and what key capabilities of a good rating system that they need to look for.

Change Is Necessary

Change is happening all around the insurance industry and the days of the status quo in the industry are over. Written premium has been flat and coupled with interest rate that has been falling make it harder for carriers to grow their business. Additionally, increased competition through the arrival of new all digital carriers and a rapidly changing customer base with little long-term loyalty and high customer service expectations make it harder to survive in the market.

As regulations, industry, competitors, and consumer needs change, carriers must continue to adapt their product portfolios and introduce new product faster to market to gain competitive advantage and sustain growth. Unfortunately, many carriers are strapped with costly legacy systems, cumbersome internal processes and inflexible systems. These aging systems impede carriers from capitalizing on growth opportunities or reacting to competitive pressures.

In light of this, many carriers are taking a closer look at their existing systems. They need to decide if they should continue with existing system or change to a new modern system. The objective is clear that the systems in place should be flexible enough and allow them to rapidly enter new markets, introduce uniquely differentiated products, while improving operational efficiency and controlling costs. Those carriers that want to succeed in the market need to do something, and they need to do it quickly.

P&C Transformation Projects

In an effort to compete in the marketplace and grow their business, many carriers have decided to do core legacy application projects. The strategic initiatives supporting these investments are often focused on making improvements to insurers' core operations, allowing them to become more flexible. Some of the strategic projects that many carriers are undertaking include claims management, billing, incentive compensation management and, the biggest and riskiest of all, policy administration system replacement.

It is understandable for carriers to do these projects because, for example, a successful PAS replacement project can help carriers to deliver speed to market, provide straight-through-processing from quoting and rating to policy issuance, simplify product development, and provide access to policy data for customers and agents. In fact, based on research conducted by Novarica, many P&C PAS projects show improvements of 25% or more in the company's speed-to-market and data accessibility, as well as gains in business user satisfaction, distributor service, and reduced technology risk. No wonder that today more than 40% of mid-sized carriers and more than 25% of large

carriers are either in the process of implementing a policy administration system or are planning a replacement project.

However, there is simply nothing as intimidating as a PAS replacement because policy administration touches most of a carrier's functions from quoting and rating, to underwriting, distribution, and even customer service. So, historically, there are many horror stories on PAS transformation initiatives. There are more PAS projects that went way over budget and dragged on for years than the number of successes. In fact, the Novarica study shows that only 30% of policy administration projects meet the traditional definition of success in terms of time, budget, and scope delivered. And of that 30%, only less than one in three realize the full business benefits. PAS transformation is indeed risky.

Rating as the Force Behind P&C Transformation

Carriers should be asking themselves which area to approach first in their transformation journey. Starting with policy administration is not recommended because the relevant processes and systems are more complex and thus will increase the time and risk including the inability to see tangible, incremental progress. What carriers need are quick wins and tangible results to help maintain resource enthusiasm while still achieving overall objectives of delivering speed to market, providing straight-through-processing from quoting, application and underwriting, and simplifying product development.

A better approach, for instance, is addressing rating and underwriting first to greatly reduce project delivery risk. A good enterprise rating system is the foundation of product development and rate management that enables carriers to provide the right product at the right price to the right customer through the best channels, at any given moment in time and within a highly complex IT environment. Rating is the most easily addressed and less complex than PAS so it should be the first step in a carrier's transformation journey.

The real benefit of single enterprise rating system is the ability to deliver improved business capabilities, such as improved product management, streamlined underwriting, and speed to market. With these benefits, carriers can accomplish a significant portion of their overall transformation goal. Furthermore, lessons learned from the rating project can be applied to the bigger PAS project so it is helping to fuel and support the successful completion of the overall transformation project.

Starting with rating first can help build momentum and increase organizational appetite for change by delivering quantifiable benefits faster. Oracle Insurance customers that implemented rating first in their transformation process have received benefits in a relatively brief timeframe. Payback cycles of less than a year and, in some cases, of six to nine months are achievable and proven targets for these customers.

Choosing the Right Rating System

Among the applications insurers seek to modernize, rating is arguably the most critical and can have the most visible effects because rating impacts revenue and is fundamental to new product offering that is the cornerstone of insurers' competitive differentiation. However, not all rating systems are created equal. Therefore it is important to choose the right rating system for your business.

When Oracle asks our insurance customers, particularly the large tier-1 customers, there are several key capabilities that they are looking for in an enterprise rating system. The top 3 key capabilities are:

1. *Scalability and performance to support growing business*

   For large tier-1 customers that write millions of policies each year, performance and scalability are the most important factors in deciding on a rating system in which to invest. The increasing volumes of policies provide a

unique challenge to IT organizations within the enterprise. The technology infrastructure not only needs to meet the current performance requirements but also must continue to scale seamlessly as business demand grows. This is where Oracle Insurance Insbridge Enterprise Rating has proven to be the clear performance and scalability leader. Insurance customers use Oracle's rating solution in the most-demanding environments such as the use of thousands of inputs, calculated variables, algorithm and millions rows of tables to come up with the right rating. Our customers have continued to build and expanded their implementation to other lines of business, which shows that they are confident that the Oracle's rating solution can support their growing business.

2. Breadth and depth of functionality that can support product complexities

To be more competitive in the marketplace carriers need to differentiate their offerings through innovative products. Having a modern rating engine with the ability to perform complex and sophisticated rating logic is becoming more important than ever. There are more parameters that carriers want to take into account to optimize pricing. For example in auto insurance, rather than examining past driving habits as a basis for premium, insurance costs are accrued depending on when they drive, as well as how far and how fast they go. Micro-rating based on individual characteristics will replace the broad tiers the industry uses today. An enterprise rating system such as Oracle Insurance Insbridge Enterprise Rating is built from the ground up to handle these types of complexities. Insurers use Oracle Insurance Insbridge in their complex commercial rating environments to help them achieve better pricing, deliver more innovative products, and faster time to market.

3. Ease of use that help drives speed to market

Speed to market is really important in a competitive market. It means giving carriers the upper hand when it comes to innovation, allowing them to reach consumers with new products faster, before their competitors do. This gives them the opportunity to dominate the market and gain market share simply because they introduced the products first. Oracle Insurance Insbridge Enterprise Rating helps carriers in delivering the products faster to market. It has easier to use interface that enables users to learn the system quickly and use it more efficiently. Oracle Insurance Insbridge allow user to design rate plans with point and click mouse movements. Algorithm steps can be built and their order rearranged by dragging items across a screen. Changes are managed by the business users and can be performed in minutes, and then propagated throughout the enterprise. This greatly reduces the time required to make rating changes, as well as reducing maintenance efforts and reliance on the IT department. The system is a flexible, unique out-of-the-box rating solution that can help carriers deliver product faster to market.

Carriers continue to depend more and more on reliable and flexible systems. Traditional rating engines tied to old policy administration systems are no longer competitive enough. Even a rating engine that is part of a new PAS may fall short in supporting the algorithm complexity required by the actuarial and product management teams, and it may not provide the organizational flexibility being sought. A single modern enterprise rating engine is the way to go. Oracle Insurance Insbridge Enterprise Rating provides extensibility, consistency, and accuracy, as well as flexibility to help create unique products faster so you can gain competitive edge in the marketplace.

Conclusion

There was a time when the most successful and admired companies were too-big-to-fail institutions with a rich history of innovation. But as companies like these grew complacent, they learned a tough lesson: standing still isn't a winning strategy. Carriers that want to succeed in the market need to keep up with the change and replace their systems with more flexible, modern solutions. It is not a simple undertaking – it will take time, effort and dedicated resources to be successful. However, like the Chinese proverb said journey of a thousand miles begin with one small step; carriers can start their transformation journey by replacing their rating systems first to realize benefits faster. Carriers that use Oracle Insurance Insbridge Enterprise Rating have achieved significant improvement in their operations within relatively brief time frames.

For more information on Oracle Insurance, please visit oracle.com/insurance. Contact us by e-mail at insurance_ww@oracle.com or call **+1 800-735-6620** to speak to an Oracle Insurance representative.

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