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Executive Overview

Business and enterprise agility can determine an insurance carrier’s ability to compete and differentiate in a dynamic marketplace. Facing ever-changing market demands, life insurance and annuity carriers must continue to adapt their product portfolios—and business processes—as regulations, industry, competitors, and consumer needs change.

Unfortunately for many carriers, their aging, legacy policy administration systems prevent or inhibit rapid changes to products or processes. To overcome these challenges and differentiate their business from the competition, many carriers are making the move to modern rules-based policy administration systems.

This brief discusses how insurers can harness the power of rules-based configurability to derive faster time to value during key phases in their policy administration transformation projects—requirements gathering and integration—through the use of process models or configuration templates. In addition, it describes how one carrier transformed its product portfolio and a key process within the policy lifecycle to differentiate itself from the competition and ultimately grow its business despite the economic downturn.

Introduction: What’s Behind the Drive to Modernize?

A recent industry survey conducted by Oracle Insurance and Insurance Networking News found that insurers are eager to improve customer service and be more competitive. Two-thirds said they could provide better customer service if they had the right systems in place, and one-third said they could introduce more competitive products. What’s holding them back? It’s their inflexible legacy technology—in particular, aging policy administration systems.

The lack of flexibility in these systems, the effort required to maintain them, and the difficulty in finding qualified IT staff to support aging technology continue to constrain carriers’ ability to be agile and adapt to change. Specifically, these constraints impede a company’s ability to rapidly develop and distribute new products or enhance existing ones. In addition, aging policy administration systems can be difficult to integrate with new applications and web portals, inhibiting a carrier’s ability to provide real-time access to policy information and better service customers and distribution channels. And they can put a carrier at increased risk for regulatory noncompliance because of the lengthy time required to make system modifications.

The inability of these hard-coded, legacy systems to support organic growth is also a major concern for insurers—and is driving the move by carriers to replace them with modern systems that support their need to be agile. Industry analyst firm Celent notes “...legacy modernization has been and will continue to be high on the agenda for at least the next 10 years.”

So what are carriers’ expectations for a modern policy administration system? Industry analyst firm Strategy Meets Action (SMA) recently asked 200 insurance carriers this very question. Their response was clear: approximately 90 percent of life/annuity respondents cited improving business efficiencies as their top imperative, and about 70 want the capability to improve time to market for product and regulatory changes, with that same percentage citing their desire to enable non-technical users to update rates and business rules as critical success factors.

“People want to be able to implement these systems to be interactive and configurable, rather than dealing with a significant amount of embedded code,” says Karen Furtado, a partner at SMA.

“Insurers should think of core system replacement as a culture shift, not simply a new technology. Modern core systems force insurers to focus on business problems and rethink traditional processes, roles and business goals. It’s almost like going back to the days of process reengineering. This level of change requires buy-in both across and up and down the organization.”

— Karen Monks, Celent “Reviving the Insurance Core Systems Business Case,” September 2011

Empowering Carriers to Think and Act Differently

It’s no surprise that carriers are increasing their focus on the benefits of implementing rules-based policy administration systems. Hard-coded systems often require lengthy source code customization or database changes made by IT any time a change is required. In contrast, modern systems—such as Oracle Insurance Policy Administration for Life and Annuity—help carriers harness the power of rules-based configuration. Configuration supports the rapid creation of new and adapted products and business processes to meet evolving business needs, both now and in the future.

Deploying a modern, rules-based policy administration system can provide an insurance carrier with a unique opportunity to analyze how they do business today and transform key processes, without the limitations of their previous technology. Such a system supports a carrier’s ability to think and act differently. Carriers can configure the system to support their own unique businesses processes—for example, how they issue policies or process death claims. It empowers those involved in the configuration process—typically a blended team of business and IT users—to rapidly configure products, fields, screens, languages, currencies, transactions, and more using business rules. This eliminates the need for a lengthy IT engagement and improves collaboration between business and IT.

Speeding Time to Value for Core Transformation Projects

According to SMA’s Furtado, “You want to enable your organization to transform for the future, not just automate for the past.” Often, carriers configure the new system to follow a process prescribed in their legacy system, without considering how they could configure the system for innovation. This simply recreates the same problems and constraints.

To avoid this trap, careful analysis of business processes should be conducted early in the policy administration transformation project. This is especially critical during the requirements gathering, integration analysis, and conversion phases. The use of process models or configuration templates during these phases, along with a data dictionary, can help reduce the time required for configuration, while helping define the scope of the initial


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implementation. Establishing a data dictionary at the beginning of a project also can enable the conversions process to begin earlier and help reduce risk—for example, identifying what data needs to occur in which field. (For more on data migrations and conversions, please see the Oracle Insurance strategy brief, Changing the Rules of the Game: An Adaptive Approach to Core System Migrations, 2011.)

Requirements Gathering

Requirements gathering is a necessary step that each carrier must undertake early on during a policy administration transformation project. This is true even if the system comes pre-configured with “out-of-the-box” templates or examples of common life insurance and annuity products or processes. For example, the new system may come with a universal life product template that has been pre-configured with “standard” documented processes. These “out-of-the-box” examples may offer guidance for configuring typical transactions for rate calculations, policy issue or death claims processing; however, they will not, by definition, reflect the unique processes that have been developed by the carrier over the years—unique processes which may be a competitive advantage.

When embarking upon a transformation project, it’s common for carriers to discover that existing processes are not well documented. Knowledge often resides with front line business users or experienced mid-level managers who have used the legacy system and who may not have the time or expertise to transfer this knowledge to support the capabilities of a new system. Conversely, experts on the new technology may not immediately have a thorough understanding of business process flows.

Bridging the gap between these groups is the role of requirements gathering—and doing it as efficiently as possible is the key to a successful policy administration transformation project. Some carriers approach this phase by spending a lengthy amount of time describing the capabilities supported by their previous policy administration system(s), when they would be better served to carefully analyze current processes and strategically identify the process improvements that are possible with business rules configurability. Others go to the opposite end of the spectrum and take a “blue sky” approach, attempting to document all desired improvements that can be made to existing processes because of the system’s inherent flexibility. Neither approach is recommended, as they can prove to be costly, time consuming, and difficult to complete.

Instead it is advised that carriers embarking on these projects leverage process models or configuration templates. Templates are documented, pre-defined rule sets that demonstrate a particular way to address a step in policy lifecycle processing. As an example, templates may provide several ways for a business analyst to configure the policy issue process. These may include defining different policy status, restrictions, dates, and options to handle cash with the policy application. Additionally, integration between the new business underwriting system, agent licensing and general ledger are often critical to the process. This doesn’t mean that policy issue cannot be implemented differently, it simply enables the carrier to understand the possibilities and compare against what is currently done on their existing legacy platform.

The use of process models or templates can provide a significant advantage. First, they can help reduce time by providing a clear vision of what is possible within the new policy administration system. Secondly, they provide an anchor or a starting point of common best practices that can then be adapted to the business—so the carrier does not have to start from scratch. Finally, they enable carriers to review manual processes that could be replaced and made more efficient through automation. This step will have a positive impact on overall business transformation as it allows carriers to examine the ways in which they do business and better align business processes to get the most value out of new IT investments.

With templates, the core business transformation team can decide to:
Keep existing legacy processes in place. This is typically the lowest risk and lowest cost, but also provides lower transformational value.

Choose one of the pre-defined templates and integrate with other enterprise systems. This option costs more but has reasonable risk. It provides some transformational value, but provides lower differentiating value.

Specify a totally new business process that aligns with your business transformation strategy. This is a higher risk/higher reward option, since it provides both the transformational advantage and competitive differentiator value.

It’s critical to understand that the cost and risk is primarily associated with defining new requirements. Once the integration mechanism, message model and business processing have been defined, the actual rules configuration is small. This is why templates reduce cost.

Integration Analysis

There is a misconception in the marketplace that hard-coded policy administration systems are faster, cheaper and easier to integrate. These solutions seem to offer “out of the box” integrations or hard-coded product definitions that may initially speed deployment on the front end. However, they typically drive up costs over the long term as the inflexible architecture of these systems require heavy IT and vendor reliance for customization. This inevitably places the carrier back into the very situation that they were trying to escape, since the interface definitions become tightly coupled with a hard-coded system that is expensive to change.

Underestimated or poorly defined integration requirements also can lead to costly errors or delays in implementation. Errors may not be discovered until the testing phase, requiring rework by the integration team to redefine requirements. This is why a clearly defined integration strategy is another critical consideration for project success.

In addition to identifying the applications with which the policy administration system must integrate, carriers also need to identify the data that must be passed between these systems. Process models and templates, in addition to providing ways to configure policy events, also provide a reference data dictionary that defines transaction data payload and a set of standard policy lifecycle events, along with their triggering rules. Using a reference data dictionary that ties into industry-standard message models (such as ACORD) as a starting point can help accelerate integration. A data dictionary can help define commonly used terms, as well as where and how they are used within the planned integrations, providing the significant advantage of a reference set of interface definitions while keeping a loosely coupled architecture. The events defined by the process models and templates help clarify the potential touch points and flow of messages between different enterprise systems.

As an example: when integrating with agency management systems, carriers must decide which information is passed with each commissionable event. There are obvious elements that must be passed, such as the amount paid, policy number, etc. But whether commission calculation, coverage information, and other policy-level elements are passed will depend on the specific implementation. Using a data dictionary and a standard set of messages as a starting point, carriers can get a perspective on best practices and quickly decide whether to adapt the policy admin messages to their infrastructure or to change the existing infrastructure to match the new system.

A Modern Policy Administration System in Action

The Annuity Division of a global financial firm began a policy administration system replacement prior to the economic downturn and was much better positioned to respond to the changing environment with a modern, configurable system in place. At the time of the IT investment decision, the company wanted to take advantage of growth opportunities while increasing enterprise agility, so it could better respond to market and regulatory pressures. It needed a system that offered business flexibility, scalability and efficiency, advanced functionality and a
better customer experience. The company chose Oracle Insurance Policy Administration, with its project team organized into four work streams:

» Configuration – four products and more than 60 business processes
» Data conversion – approximately 250,000 policies, with over 20 years of history, and approximately 10 million transactions
» Integration – 24 integration points
» Reporting – 130 feeds and reports, development of operational data store, and 600 jobs in nightly batch

The carrier quickly developed and brought to market a complex annuity product with a variety of features and options that its legacy system would not have been able to support. This innovative product generated 25 percent of the company’s total sales in its first year of production, and the new system has reduced average time to market for subsequent new products by a third versus its previous system. The company has since migrated all of its annuity products to the new system and retired its aging legacy system. Additional benefits include easier integration with other systems and process efficiencies, such as automation and error-proofing.

“Modern policy administration systems are more flexible than systems of the past. This has allowed us to shorten our delivery time for new products and product changes. We also had a greater ability to integrate with other systems and deliver process efficiencies. We were able to drastically change our death processes, introducing automation and error-proofing.”

— Vice President, Client Services Technology, Tier Two North American Insurance Carrier

During its transformation project the company made a crucial decision to analyze and reengineer key business processes for improved operational efficiency. As a result, its previously manual and error-prone death claims process has been transformed into an automated one, from calculations and contract, to creation, to money transfer and correspondence. Today the process is virtually error-free, and the effort it takes to complete a death claim is measured in minutes instead of hours, resulting in improved service to policyholders’ beneficiaries during a difficult period.

Conclusion

Carriers seeking to transform their business and modernize policy administration should consider the benefits of a modern rules-based system, like Oracle Insurance Policy Administration. The combination of the system’s powerful rules-based configurability and templates can provide a carrier with a realistic starting point for its transformation project—helping to reduce risk. It also provides carriers with:

» Capability to adapt and change processes as business needs change, developing new rules while using models as examples of process implementation

» Flexibility to integrate other systems when pre-existing integration mechanisms exist, while providing reference message models when they do not

Finally, it enables carriers to rethink the way that they currently do business and refine processes for optimal efficiency over the long term, while helping them derive greater time to value with an accelerated initial phase of development comparable to an “out of the box” implementation.
About the Oracle Insurance Policy Administration System

Oracle Insurance Policy Administration for Life and Annuity provides

» A flexible, rules-based configuration speeds creation and launch of products
» User-friendly visual configuration tool simplifies debugging
» Product cloning promotes reuse of rules and decreases development time
» Powerful calculation engine and integrated debugger tool
» Transaction-level testing improves accuracy and supports quality assurance

It bring in the following benefits

» Leverage a single system for improved efficiency and lower TCO
» Bring new products to market faster through collaborative development
» Configure changes without customization or recompiling system's core code
» Increase product development flexibility
» Support compliance through a detailed audit trail

The OIPA solution meets all of the recommendations of this paper.

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.