

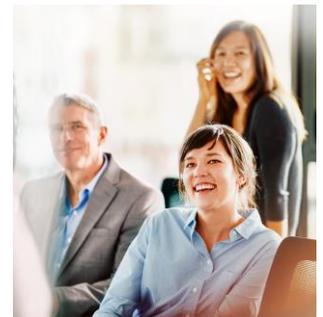


Group Insurers: The Truth about Picking the Perfect IT Vendor

How to Make the Big Decision on Your
Policy Administration System

Group insurance carriers are finally modernizing their technology platforms to a solid digital core, transforming IT noticeably faster than individual insurers. Strong competition on group life pricing and plan design is pushing more group insurers to upgrade their policy administration systems. As more mainframe programmers retire, more group insurers are also preparing for the inevitable extinction of legacy systems.

Choosing your policy administration system vendor may be your organization's most important IT decision. The vendor you choose will ultimately impact every member of your organization for the next 30 years. As you embark on the vendor selection process, use this strategy brief as a high-level framework. Oracle Insurance shares vendor selection best practices based on more than a decade of experience serving group insurers.



FORM A VENDOR SELECTION COALITION AND GET BUY-IN

Before assessing various policy administration solutions, you need a dedicated team to lead the vendor selection process. Consider the team like a coalition of allies, each personally invested in the outcome for different reasons. Their positions each give them an intimate understanding of how one process affects the entire business. They come from different levels of the corporate hierarchy, yet they have one thing in common: they all feel the pain of legacy systems.

Where C-level executives can offer a big picture perspective on short-term and long-term business goals, system users can offer granular-level insights. Staffers who work closely with distributors, customers, and underwriters can readily pinpoint the source of delays, errors, and inefficiencies. Ultimately, your entire committee will be instrumental to contributing requirements to your RFI.

Forming that diverse coalition from the start is critical. If you wait closer to implementation, convincing your colleagues will inevitably be an uphill battle. Seeking widespread input early on will help your team garner support more easily from the top down and bottom up.

The Ideal Vendor Selection Coalition Brings Together Diverse Perspectives

- senior vice presidents developing growth strategies
- CIOs or CTOs managing IT risk and costs
- product development leaders eager to bring innovative products to market
- compliance managers bombarded with regulatory changes
- IT staffers overloaded with never-ending integration complications
- customer service representatives addressing questions and concerns from policyholders

TIPS ON MANAGING YOUR VENDOR SELECTION COALITION

Designate a project lead to be the primary contact person communicating with vendors.

Set your project milestones: research, assembling your long list, creating your list of RFI, narrowing your list of vendors, scheduling demos, managing proof of concept stage, etc.

Clearly delegate duties. The project lead holds members accountable for meeting internal deadlines.

Get executive-level management to commit to a budget.

IDENTIFY YOUR MOST IMPORTANT GOALS

Your vendor selection team must have a clear vision of the “why” before the “how.” As your coalition members discuss their unique perspectives on company goals, your group must come to a consensus. Identify your organization’s top priorities. What matters most to your organization overall?

Group insurance companies aim to:

- grow new business and increase market share
- innovate products
- increase efficiency
- simplify complex IT
- accelerate speed to market
- improve customer experience
- reduce and control costs
- comply with regulatory changes

Focus on ideal outcomes before identifying specific system features to drive those results.



INSIST ON FRESH PERSPECTIVES ABOUT DIGITAL AGE POSSIBILITIES

In the early stages of the vendor search, exploring aspirational goals are key. Long-time employees might unintentionally limit their options based on current budget constraints or replicating current processes. Oftentimes, the knee-jerk response is to dig up the RFI the organization drafted more than 20 years ago from the last system upgrade. The project lead should insist that all team members start with a holistic view of their overall business strategy.

Collaborate closely with your in-house IT experts who understand analytics and evolving IT architecture. Keep in mind that the IT department is not merely about supporting processes like claims, pricing, underwriting, and other parts of the insurance lifecycle. Successful insurers understand that their IT leaders should be deeply entrenched in developing strategy.

COLLECT DATA TO BUILD YOUR BUSINESS CASE

Once your team has explored big picture goals, you're ready to zoom in on operations on a microscopic level. Map out every process from policy application and enrollment through claims and billing. Dissect internal workflows, paying special attention to the workarounds your technical team has developed over the years.

Then start collecting data on your processes as early as possible. Data will help you examine your current processes and probe deeper to reveal inefficiencies. Even if your company leaders can easily pinpoint your problem areas, you need data to show the extent of those problems.

For example:

- What's the tipping point for customers who abandon the application process?
- What percentage of staff time is going toward routine claims adjudication?
- How many steps are typically involved in data intake?
- Where are the delays in creating new products?

Those figures will prove that manual processing is becoming increasingly unsustainable, and your problems are urgent. When the time comes to ask executive management for a firm budget commitment, use that data as your supporting evidence.

CLASSIFY FEATURES: CURRENT NON-NEGOTIABLES AND FUTURE NEEDS

The many extra steps, workarounds, and labor-intensive tasks are now glaringly obvious. Your problems will guide your organization to determining the functionality you need from your policy administration system. Identify the features you need now and in the future. These requirements will ultimately make up your RFI.

The features you need right away are your non-negotiables. Your organization urgently needs to modernize these areas. Your team should also identify what features your organization will need in the future. What features will you need two years from now? Continue mapping out your needs 5, 10, and 15 years from now.

For each feature you require, tie it back to your most important goals. Continue pushing your vendor selection committee to pinpoint how each feature will impact the overall organization. Ask questions such as:

- How is this feature going to scale the business?
- How is this feature going to increase efficiency?
- How is this feature going to drive down operating costs?

Let's explore a few examples of group insurers' priorities and the features that support them.

Simplify Complex IT: One System to Manage Individual and Group

Most insurance companies already struggle with disparate legacy systems. Separate systems for various lines of business aggravate the problem. Still though, many insurers start their vendor search aiming to consolidate one line of business at a time. Similarly, insurers also narrow their search for particular system components based on immediate needs. By going that route, you'll likely find enrollment platforms designed specifically for health, for example, but not necessarily suitable for voluntary or supplemental line of business.

Consider the benefits of consolidating further: using one system to manage all lines of business—both group and individual. Look for a system that also allows you to consolidate and integrate with third-

Probe Your Data to Assess Current Processes

- What manual processes are possible to automate?
- Where are the bottlenecks?
- How are the multiple workarounds impacting turnaround times?
- What areas are creating redundant work for staffers?
- What is the root cause of poor customer experience?
- What points are vulnerable to errors?
- What problems are preventable?
- How could systemic changes prevent those problems?

party systems. Consolidating allows you to reduce the number of integration points and technology to manage.

Expand Product Offerings and Speed Up Time to Market: Flexible Rules Configuration

As employers expand their voluntary benefits to entice top talent and help employees, new opportunities are opening up for group insurers. More employers are starting to offer voluntary benefits like identity theft protection, pet insurance, and hospital indemnity, according to Willis Towers Watson. Analysts expect the number of employers to offer those products and others to increase—more than double in some cases—by 2021.¹

Group carriers are looking to develop new products and expand their offerings to broaden the customer base. From basic insurance to complex, high-end products that appeal to affluent markets, all kinds of products are attracting attention.

To create new products quickly, your policy administration system needs flexible rules configuration. Your business users should be able to configure rules without relying so heavily on your IT department. Your ideal policy administration system lets users define rules, as well as create and modify products, policies, and more without changing the base code.

Flexible rules configuration offers group insurers freedom in many ways. For example, if an employer offers different insurance products or benefit levels based on employee level, the group insurer should be able to set up those classifications easily.

Accelerate M&A Expansion and Other Growth Strategies: Scalable System

Given the high demand in acquisitions in life and health, as well as for closed blocks of life and annuity business, growth remains a top priority for group insurers.² Your organization's growth strategies will change over time, and your policy administration system should empower you to execute quickly. Whether that means packaging group life with health products or expanding into a new line such as voluntary benefit products, your system must be able to follow your lead.

Pursuing various growth strategies can be extremely difficult and slow. For group insurers to scale up, they must be able to handle massive volumes of small monetary value transactions on a regular basis. Complex IT environments and hard-coded system changes can eat up multiple months on seemingly simple tasks. Your organization needs a scalable system that adjusts to your business demands. Whether your organization handles 1 million policies or 100 million policies, your system should be able to perform well at all levels.

Differentiate Yourself in the Market while Reducing Costs: Automation

New opportunities in the group insurance market are beginning to surface. In 2017, more Americans had workplace life insurance than individual life policies for the first time, according to LIMRA.³ Group insurers are competing on pricing, plan design, and more. High automation helps group insurers dramatically reduce costs while providing more value, which ultimately differentiates them in the market.



“Carriers have to keep in mind that selecting a core system ties you to the product vendor for years to come. When assessing the viability of a solution vendor, it’s important to not only consider the strength of their product offerings, but also their strategy and reach.”

Dave Shively
Group Vice President and
General Manager
Insurance Business Unit
Oracle

¹ Willis Towers Watson, “Voluntary benefits now viewed as essential, Willis Towers Watson survey finds, 10 April 2018, <https://bit.ly/2G0tF5i>

² Deloitte, 2018 Insurance M&A outlook, <https://bit.ly/2mf8jaT>

³ Life Annuity Specialist, “Employer-Based Life Insurance Sales Eclipse Individual Channels,” 8 September 2017, <https://bit.ly/2s7B51K>

Your ideal policy administration system is highly automated, so you can:

- enroll people automatically based on their individual circumstances
- collect and allocate premiums
- provide a low-cost means of retirement provisions

CONDUCT RESEARCH WITH ANALYST FIRM HELP

Analyst firms and their annual reviews of policy administration systems offer tremendous value, especially those that specialize in the insurance industry. Gartner, Aite Group, Novarica, and IDC are just a few examples of the firms that produce thoroughly researched reports.

Studying analyst reports will help you assemble your initial list of potential IT vendors. Study the assessments on quality of service, product functionalities, and insurer experiences with the vendor. In particular, make sure to capture what systems meet your basic requirements and which vendors offer differentiating features. Consider how these differentiators will impact your business users, IT staff, customers, and distributors.

If your organization needs more intense guidance, you may want to consult with an analyst firm specializing in insurance.

STUDY THE VENDOR

Throughout the vendor search and selection process, your team will likely become enmeshed in the features and functionalities of each system. Evaluating your vendor as a long-term partner requires a different lens. Consider this: the average lifespan of a policy administration system is 30 years. When you decide on a policy administration solution, you'll be starting a long-term relationship with your IT vendor. The current policy administration system is only part of the vendor's overall value. Exercise due diligence on your vendor keeping that prolonged partnership in mind.

Here are the most important ways to evaluate your vendor:

Group Insurance Expertise and Track Record Proving Scalability

Your ideal vendor has implemented its system at insurance companies similar to yours. They understand the unique demands of a group insurer your size, the lines of business you manage, and the types of group products you offer. If scalability is important to your organization, specifically inquire about the largest number of policies the solution is benchmarked to handle.

Having a long track record serving similar group insurers makes the vendor a valuable asset to your organization. They can pull from past experiences to anticipate your organization's needs. When you're down to your finalists, request case studies and references from other group insurers, especially those using the solution today.

Financial Strength and Ongoing Investments in R&D

When an IT vendor seems unwilling to share audited financial information, consider that a red flag. A vendor's poor financial status could signal a future acquisition or worse, insolvency. Make sure to request financial statements to ensure that the vendor is financially stable.

Oracle Insurance Proof Points

- More than 1,000 insurers run Oracle applications worldwide, including the top 20 insurance companies
- Can handle 100 million policies, according to benchmark performance lab tests
- More than \$350 million invested in improving our core insurance applications
- 100 percent success rate implementing Oracle Insurance Policy Administration for more than a decade (with implementation partners)



More importantly, inquire about your vendor's ongoing investments in improving the product. The vendor's level of investment in R&D shows their commitment to adapting to your organization's evolving needs.

Future Product Plans



Vendors differ widely in how they plan to approach future product offerings and modernize their applications. Some are focused on specific markets like Medicare supplemental benefits or certain individual lines of business, while others are expanding to new lines of business like group insurance or voluntary worksite. Study the vendor's product roadmap to see if their plans align with your organization's goals.

SCOPE OUT IMPLEMENTATION PARTNERS AND PAST EXPERIENCES

CIOs are especially concerned about the risk that comes with implementing a new policy administration system. They may have heard about negative experiences other insurers have had, where the implementation costs drastically exceeded the quote or complications stalled completion for months. A common complaint among insurers, according to a recent Novarica study, is that the implementation project manager or other team members don't understand insurance.⁴

Learn about your vendor's implementation partners and their insurance expertise. How knowledgeable are they with your particular processes? Inquire about their experience implementing the policy administration system at insurance organizations similar to yours. You'll be relying on their expertise, and in some cases, trusting your implementation partner's recommendations over those of your own IT staff.

Oracle's many partnerships with system integrators play an important role in making implementations successful. One of our partners is EquiSoft, an integrator that specializes in core insurance applications. EquiSoft has been implementing Oracle Insurance Policy Administration (OIPA) for more than a decade, having done most types of life, annuity, and health products. Unlike other systems on the market, OIPA has had a 100 percent success rate on implementations. Not a single implementation has failed.

HOW TO MAXIMIZE THE PROOF OF CONCEPT STAGE

The vendors that make it to your top few spots have met the hundreds—perhaps thousands—of requirements in your RFI. They've given your team their high-level demonstrations of key functionalities. Meanwhile, your vendor selection committee has delved deep into customer references, analyst reports, financial statements, and more. Still, you may not feel completely convinced you're making the right decision until you test the policy administration system within your organization.

The proof of concept (POC) stage is the single most effective way to finalize your decision. The vendor comes on-site and allows you to use a demo platform to test your own scenarios. At Oracle, we encourage a two to four-week POC, where the insurer selects up to 10 key major pain points and processes across the policy lifecycle.

⁴ Novarica, "Vendor Perspectives on Avoiding Troubled Core System Projects," November 2017, <https://bit.ly/2B636Kw>

The POC is your chance to experience the real impact of the system. When you choose what processes to cover in the POC, do not pick routine scenarios. Pick extreme situations that take a toll on your systems and demand significant time and effort from your staff.

At Oracle, we see the POC as an opportunity for the insurer to experience the difference between a modern rules engine versus a more traditional parameter-based rules approach. The insurer has the chance to try “true configuration” on their specific processes rather than code changes. By getting hands-on experience with the system, you’ll know you’re making the right choice for your organization.

CASE STUDY

Group Insurer Tackles Mega IT Decision with Oracle: 6,000+ Requirements, 44 Potential Vendors, 10 Months of Preparation

American Fidelity Assurance, a large supplemental group insurance provider, serves niche markets in 49 states and 23 countries. The company takes pride in understanding the unique needs of their employer customers and providing extraordinary customer service. For many years, they struggled getting their outdated IT systems to support their customer-centric focus.

American Fidelity’s policy administration suite had evolved into a complex web of 37 legacy systems and associated processes. Routine changes often took many months to accomplish, requiring staffers to access multiple systems. Lead times, handle times, testing—they all dragged on. Meanwhile, executives realized within a few years, they would be down to one mainframe programmer. The company decided it was time to modernize their policy administration system.

Fully aware of the enormous impact the decision would have on the company, executives set the stage early for an intensive vendor selection process. Preparation alone took 10 months. American Fidelity worked with a consulting firm to draft more than 6,000 requirements.

Then the search for the ideal solution began. Vendor selection committee members—from both the IT and business sides—worked together to research policy administration systems. They started with 44 vendors including Oracle, careful to consider all possibilities in the early stages. In the next round, they shrunk the list down to 22 vendors. The following round would determine which vendors would receive their RFI of 6,000+ requirements. Seven vendors submitted RFIs and RFPs. Once American Fidelity’s committee combed through responses, four vendors made the cut.

The final round would be the most rigorous: a full week of on-site demos and proof of concept for each vendor. The vendor selection committee at American Fidelity planned to test functionality related to billing, claims, new business, and more. CIO Kim Fisher explained the company’s rationale: “Not only was it important to hear verbally what these vendors could do for us, we wanted them to prove it.”

Simply observing how vendors responded proved to be an eye-opening experience. One vendor voluntarily dropped out, admitting it could not handle the insurer’s needs. Another agreed only if they were one of the final two vendors.

“If you’re not willing to commit to us now when we’re trying to make the decision, how committed will you be to us later after we’ve got multiple years invested?” Fisher recalled thinking. “We said, ‘Thanks, but no thanks.’”

Ultimately, Oracle Insurance Policy Administration proved to be the solution that met the insurer's 6,000+ requirements. According to Fisher, "Oracle was the clear winner at the end of the day."

THE IDEAL VENDOR FOR YOUR ORGANIZATION

American Fidelity's method of finding the ideal solution went above and beyond the standard for most group insurers. Looking back, company executives say the intensive process was well worth the time and effort. As your organization embarks on your vendor search, be sure the people in your organization understand the magnitude of this decision. Work aggressively to combine expertise from both IT and business users. No matter how many hundreds or thousands of technical features end up on your RFI, remember to stay focused on the big picture.

More than 1,000 insurers run Oracle applications worldwide, including the top 20 insurance companies. To find out more about how Oracle's solution can transform your organization, learn more at oracle.com/insurance.

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