

Addressing the Challenges and Opportunities Mid-Market Insurance Carriers face in a Core System Selection Process

ORACLE STRATEGY BRIEF | JUNE 2014





Table of Contents

| | |
|---|---|
| Executive Overview | 1 |
| Industry Context | 1 |
| Challenges of the Mid-market Carrier | 2 |
| Opportunities for a Mid-market Carrier | 4 |
| Vendor Selection Criteria for PAS and SI vendor | 5 |
| Conclusion | 6 |
| About Oracle Insurance | 6 |
| About the Oracle Insurance Policy Administration System | 7 |

Executive Overview

Mid-tier carriers struggle with the having the same needs for business agility, process efficiency, and support for a growing portfolio of products as large carriers but with IT budgets that are a fraction those of their larger peers. This strategy brief presents the criteria used by several mid-market carriers in their selection of new core systems in order to realize the same benefits from their core system replacement projects as their larger competitors such as dramatically increased speed to market, improved product innovation, and significantly reduced operational expense at a cost that is reasonable for a mid-sized IT budget. This brief also outlines the challenges that are faced by and opportunities that arise for mid-market carriers and offers recommendations to ensure that the best technological solutions will be chosen.

Industry Context

The insurance industry is going through a lot of changes and insurance carriers are looking for new avenues to create a competitive advantage – innovative products, quicker time-to-market, better utilization of customer touch points, etc. Meanwhile the business context has changed both internally and externally. Internally, there is a need to become more efficient, reduce risk, be more flexible and agile, and ultimately be more stable and profitable. Externally, customers are expecting easier, better, anytime-anywhere servicing (self-service, mobile applications, etc.).

The challenge for the IT organization of a mid-market insurance carrier in this context is to enable such business initiatives while at the same time keeping costs down. The critical and most costly piece of the Insurance IT landscape is their core business systems. Typically their core systems consist of inflexible legacy applications cobbled together through a patchwork of brittle system interfaces. Most carriers understand that they must do something about these core systems in order to achieve their business goals, but the challenge is to identify the systems that can achieve their goals at a price they can afford.

This paper attempts to provide the wide variety of concerns that a mid-tier carrier needs to consider while making a core system replacement choice and a wide set of recommendations that help boil down the short list of such competing products. Most of the challenges, opportunities and recommendations presented in this paper come from our interactions, implementation feedback and support of the mid-size carriers from our clientele along with market research.

These concerns include:

- » High cost of core system implementation
- » Speed to market of new products
- » Diverse portfolio of products existing on multiple legacy systems
- » Difficulty in making changes to existing mainframe software
- » Manual Processes for missing system functionality
- » Ability to support localization
- » Burden of implementing large systems

Challenges of the Mid-market Carrier

Let us look at what the main challenges of the mid-market carrier are likely to be and ways to address these challenges when implementing new software as a solution:

- » *High cost of implementation:* To remain competitive, mid-market carriers need the same software solutions being used by some of the largest carriers but the cost of implementing such a new system is too high; there are very few solutions on the market that address all the needs of mid-tier carriers at a reasonable price.

Recommendations: To remain competitive, mid-market carriers need the same software solutions being used by some of the largest carriers, but at a mid-market price. The software vendor should be able to provide a broad network of partners and service providers trained in the software to ensure that every carrier can find an implementation partner that is right for them. The carrier should also have the option of including their own resources in the implementation process.

- » *Speed to market of new products:* Introduction of new products is time-consuming and expensive, lack ability to respond quickly to market changes. Often, hard-coded business rules in existing systems make it very difficult and time-consuming to make changes – again negatively effecting time to market. In the mid-market it is especially important that carriers be agile and be able to bring innovative products to the market quickly (when you are small your differentiator is your agility).

Recommendations: Software for the mid-tier carrier should accelerate product development and speed time to market for differentiated life insurance and annuity products globally through rapid rules-driven product configuration. The size of the IT team can be much smaller with a rules-driven system considering there is no need to maintain two separate skills sets (Business Analysis & Coding). Instead resources can directly do the configuration. This is especially good for Tier 2 carriers, where IT as a cost center needs to control resource sizes.

Business and technical analysts should be empowered to collaboratively make changes using business rules, without the need to customize the system's core code or database structure.

Pre-configured product set ups should be available to accelerate creation and roll-out of new or adapted products and riders. The policy administration system should support rules reusability, product cloning, and release management. It should also provide the ability to validate calculations and formulas, reducing development and testing cycles. Also re-pricing of existing products should be easy and quickly deployable. From an agent/broker perspective, the system should allow insurance applications to be handled quickly and the ability should exist for the applications to be imported directly into the policy administration system without the need for manual entry.

- » *Diverse portfolio of products existing on multiple legacy systems:* Many mid-tier carriers have a diverse portfolio of products on multiple legacy systems used for Policy Administration, limiting growth and business agility:

- » Group and Individual products are administered in separate platforms
- » New Business and Illustrations do not share the same rules with the Policy Administration System
- » Maintenance/license fees are high for multiple systems
- » Vendor support is sometimes limited for outdated systems
- » High support costs are brought about by the high cost of mainframe processing, the complexity of managing same and finding resources to maintain older systems. This increases the expense ratio and negatively effecting time to market, this leaves less budget for innovation and other business priorities
- » Highly complex environments are the outcome of ineffective business processes and aging systems, this affects profitability, morale, and agility
- » The rigid IT infrastructure and lack of flexibility and choice often lead to little control over major budget items, particularly when a mainframe vendor forces an upgrade

Recommendations: The software solution should support all types of business (Life, Annuity, Group Life, Group Health) along with Illustrations and New Business on a single platform. It should be highly flexible and extensible, with open architecture that integrates with existing IT infrastructure to support straight-through processing. This supports the ability to transition all existing legacy systems and manual processes to a single platform with shared rules and results in IT savings in license fees for multiple systems. A single platform that supports all types of business helps the mid-market carrier reduce risk, while better managing the business to support compliance and optimize performance.

The system should help to enforce compliance and best practices, reduce manual processing, and provide full visibility into activity history detail throughout the policy lifecycle.

The policy administration system for a mid-market carrier should be developed on a common code base and should allow flexibility to create customer-specific functionality, giving your organization more self-sufficiency.

Some of the mid-market carriers are niche service providers giving products that other competitors don't do, servicing markets that are underserved. But even such players don't want to get boxed into a product/vendor and become too dependent instead should look for a system that is more broad-based but can comfortably support their niche product as well.

- » *Maintenance overhead of existing legacy systems:* The older technology and poor documentation of legacy mainframe systems make it very difficult and time-consuming to make changes. It is difficult to find resources for proprietary or dated computer languages, many people who worked on these types of systems have retired (sometimes referred to as the "graying mainframe skill base"). In addition, when you have a number of different systems it is difficult for a small carrier to have the multitude of resources needed to manage the aging systems.

Recommendations: You want modern homogenous technology. A new proven technology that is consistent throughout the system. Many systems in the market today have modern front ends, but legacy back ends – this results in the same problems you have today. However, the technology should not be so new as to be "bleeding-edge". The worst thing small carrier can do is bet on a new, unproven technology. If a smaller company gambles on unproven technology and fails, it may not have the funds to try a second option and may be stuck with the ineffective solution for a number of years. The Policy Administration System chosen for a mid-market carrier should be highly-ranked amongst independent market research organizations like Celent, Gartner and Forrester.

- » *Manual Processes:* Manual processes are often in place to handle features not available in current systems. This is both time-consuming and at high risk for errors. The number of manual processes tends to grow exponentially over time as the system grows older. At some point, you are doing so many manual processes that only core functions are handled by the system. This imposes a big burden on the business to clean up after IT.

Recommendations: The mid-market carrier's platform should provide full policy life-cycle capabilities. It should be highly configurable so that manual processes can be replaced by configured transactions or screens. The system should allow you to reduce manual processing and drive consistency by automating support of business processes and validation of transactional information for improved customer servicing. The core system should allow change with changing business requirements, if not your organization will have the same problems 10 years from now that you have today. You need the ability to make changes in your software as your business changes.

- » *Localization:* Existing systems may not support localization with the ability to handle unique regulatory and tax reporting, multiple currencies and languages by locale. Localization becomes a critical need when expanding business outside of the current geography - state-level variations, country-level variations exist and there is a need to ensure same system can support multiple geographies seamlessly without the need to replicate product/process rules.

Recommendations: The system should support multi-language, multi-currency, and the ability to handle foreign clients, addresses and phone numbers. The system should have the ability to configure unique regulatory rules based on locale, so that it can be localized to your offerings – tailoring the solution to your business and locality.

In the mid-market space, the ability to bring the best ideas and products from one geography to another isn't considered important until the market they are serving either becomes saturated or experiences a downturn. Then, having the flexibility to move into new markets becomes essential. Even if your current market is prosperous and growing, recent market fluctuations have proven that there is no such thing as a safe haven. So, the need to have a vendor who can support the carrier in multiple geographies and provide the ability to share ideas/products/rules between multiple markets is important.

- » *Burden of implementing large systems:* Small carriers are challenged to keep their existing systems up and running and do not have the excess resource capacity to take on a major systems implementation effort.

Recommendations: The system should have a Standard Open Architecture (SOA) so that you are quickly able to plug in to other systems and to find qualified technical resources on the market. Product templates should be available to provide a quick start on the building of new products. And the product vendor should be able to provide the resources necessary to successfully implement the solution as well as having a network of integration partners to provide a carrier with choices in terms of who they wish to partner.

- » *Back Office Customer Service Costs and User Training:* Small carriers are challenged to keep their back office servicing team size small and still get the required volumes handled with processes that are easy to understand and to train.

Recommendations: The system selected should be user-friendly with required user experience support to make it suited to the carrier's processes. The system should require limited mouse clicks and should provide ability to complete most operational work with least process steps. The system should also have the capability to generate consolidated views of commonly requested data.

Opportunities for a Mid-market Carrier

A policy administration implementation/replacement project is a huge investment and if it is done effectively, it can provide a lot of opportunities for a mid-market carrier. It is critical that the business capitalizes on these opportunities. Here we look at a set of such opportunities and give recommendations on the factors to consider that help ensuring the carrier is able to capitalize on them.

- » *Product Innovation:* For niche players/mid-tier carriers who aren't in a specific product line, a new policy admin implementation may bring the opportunity to create different products.

Recommendations: The benefit of using core system software that is industry standard and used by many tier 1 players would provide the mid-market carrier with capabilities to innovate in product lines similar to a tier 1 player. Care must be taken to ensure the new-age policy administration system provides ready-made product set ups and include templates that can speed up implementation and delivery of the new product lines the customer would like to expand into. Further, the System Implementation (SI) vendor selection should also consider evaluating for domain skills in appropriate areas.

- » *New Service Delivery Channels and Distribution Channel Options:* One of the typical issues with legacy systems is that the system was developed at a point the channels for service delivery and distribution were limited. Expanding into newer channels for service delivery and distribution brings in new challenges that sometimes can be insurmountable or impractical due to cost/timelines. A new core system implementation could provide the ideal opportunity to get into such new channels.

Recommendations: The product selection should ensure the new policy administration system allows working with various distribution models and has easy integration ability with surrounding systems that may be needed for the support for such distribution models.

- » *Rationalization of IT Resources:* A critical challenge for IT executives in a mid-market insurance carrier is managing the resources needed for the various systems/technologies that the IT landscape encompasses. One of the emerging trends in core system maintenance is the convergence of development resources and business analyst resources where more business-trained IT resources/IT-trained business resources perform both IT and domain tasks thus allowing for reduction in the different skill sets required in the IT organization.

Recommendations: The product selection should ensure that the IT landscape brings in components that allow for the convergence of skills and resources as required to reduce the overall cost of the maintenance team.

- » *Easier Regulatory Compliance Processes:* The ever-changing regulatory considerations is another area where many legacy systems create a significant disadvantage and time/money is spent in solving these scenarios.

Recommendations: While selecting a new core system, care must be taken to ensure required information for such regulatory reporting, or any processing requirements to be in compliance with regulatory constraints, can all be managed without additional cost. Further, to ensure on-going regulatory compliance can be managed easily, an implementation partner who has experience with working in the geography of the client should be selected.

Vendor Selection Criteria for PAS and SI vendor

A concise way of summarizing the recommendations from the challenges and opportunities and the first step towards implementing a large part of these start with creating an exhaustive but easy-to-use checklist for the Policy Administration (PAS) and System Implementation (SI) vendors. The following can be the ideal start for a mid-size carrier looking at PAS product selection:

- » PAS product has tier1 clients but priced for the mid-market appropriately.
- » PAS product should be able to provide a large network of service providers across the globe and multiple implementation choices from which the client can select an appropriate vendor.
- » Implementation timelines for multiple LOBs across Life and Annuity – should be competitive and well-ahead of the current timelines required for the client so that there is enough room to prove business agility.
- » Pre-configured product set-ups should be available to accelerate creation and roll-out of new or adapted products and riders
- » The size of the IT team can be much smaller with a rules-driven system considering there is no need to maintain two separate skills sets (Business Analysis & Coding).
- » The software solution should support multiple types of business (Life, Annuity, Group Life, Group Health) along with Illustrations and New Business on a single platform
- » The system should help to enforce compliance and best practices, reduce manual processing, and provide full visibility into activity history detail throughout the policy lifecycle.
- » Common codebase with multiple similar mid-market carriers and some market leaders – opportunities to have the functionality of large vendors and the agility of smaller players.
- » The system should support multi-language, multi-currency, and the ability to handle foreign clients, addresses and phone numbers.
- » The PAS product is based on modern homogenous technology. A new proven technology that is consistent throughout the system.
- » The mid-market carrier's platform should provide full policy life-cycle capabilities. It should be highly configurable so that manual processes can be replaced by configured transactions or screens
- » The system should have a Standard Open Architecture so that you are quickly able to plug in to other systems and to find qualified technical resources on the market.
- » Both PAS and SI vendor(s) who can support the carrier in multiple geographies and provide the ability to share ideas/products/rules between multiple markets is important.
- » The system selected should be user-friendly with required user experience support to make it suited to the carrier's processes.
- » The new-age policy administration system provides ready-made product templates that can speed up implementation and delivery of the new product lines the customer would like to expand into.
- » The SI vendor selection should also consider evaluating for domain skills in appropriate areas.
- » The product selection should ensure the new policy administration system should allow working with various distribution models and have easy integration ability with surrounding systems that may be needed for the support for such distribution models.
- » The product selection should ensure that the IT landscape brings in components that allow for the convergence of skills and resources required to reduce the overall cost of the maintenance team.
- » Required information for such regulatory reporting, or any processing requirements to be in compliance with regulatory constraints, can all be managed without additional cost.

Conclusion

Mid-market carriers face many challenges while selecting a new core system but when carefully managed the new system selection can also provide with significant opportunities. The mid-market carrier should ensure all the pitfalls that could afflict a new core system selection is mitigated appropriately – the recommendations provided above suggest ways to manage such challenges. The carrier should create an exhaustive yet easy-to-use checklist which covers all the challenges and opportunities to ensure the evaluation of the various products, vendors and solutions considers all required parameters. When done well, the same process provides great opportunities which can put the business in great stead for the future and any changes that future may bring about. Using the right evaluation criteria and checklist is the perfect start point for such an exercise.

About Oracle Insurance

Oracle Insurance provides adaptive, rules-driven systems that let insurance companies easily change business processes as their business needs change. These systems position insurers to become more adaptive themselves, ready to respond to dynamic market conditions and take advantage of new opportunities as they arise. Engineered to work together, Oracle's solutions support the entire insurance lifecycle – from product development, to marketing and sales, to customer service and support, to management and compliance. The Oracle solution meets all of the recommendations of this paper.

Oracle Insurance can assist you in finding the solution to; creating the right new direction for your business needs and based around your architecture. Oracle has an unparalleled portfolio of enterprise class applications, solutions and platforms to deploy in adaptive, flexible ways to suit customers' needs, including:

- » Oracle Insurance Policy Administration for Life and Annuity
- » Oracle Documaker Enterprise Edition
- » Oracle Fusion Middleware
- » Oracle Fusion Human Capital Management
- » PeopleSoft Human Capital Management
- » Oracle e-Business Suite

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.



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.



Oracle Corporation, World Headquarters
500 Oracle Parkway
Redwood Shores, CA 94065, USA

Worldwide Inquiries
Phone: +1.650.506.7000
Fax: +1.650.506.7200

CONNECT WITH US

-  blogs.oracle.com/insurance
-  facebook.com/oracleinsurance
-  twitter.com/oracleinsurance
-  oracle.com/insurance

Hardware and Software, Engineered to Work Together

Copyright © 2014, Oracle and/or its affiliates. All rights reserved. This document is provided for information purposes only, and the contents hereof are subject to change without notice. This document is not warranted to be error-free, nor subject to any other warranties or conditions, whether expressed orally or implied in law, including implied warranties and conditions of merchantability or fitness for a particular purpose. We specifically disclaim any liability with respect to this document, and no contractual obligations are formed either directly or indirectly by this document. This document may not be reproduced or transmitted in any form or by any means, electronic or mechanical, for any purpose, without our prior written permission.

Oracle and Java are registered trademarks of Oracle and/or its affiliates. Other names may be trademarks of their respective owners.

Intel and Intel Xeon are trademarks or registered trademarks of Intel Corporation. All SPARC trademarks are used under license and are trademarks or registered trademarks of SPARC International, Inc. AMD, Opteron, the AMD logo, and the AMD Opteron logo are trademarks or registered trademarks of Advanced Micro Devices. UNIX is a registered trademark of The Open Group. 0614