# Focus on policy systems
A tool for success

To compete effectively in the ever-changing environment of new regulation and increased customer demand, general insurers need an enhanced level of agility, flexibility and operational efficiency. Technology should be integral in helping firms to achieve this. The benefits of using the right systems in the right way are hard to overstate – success enables insurers to rapidly enter new markets, exit unprofitable ones, introduce unique products, support diverse sales channels, improve operational efficiency and control costs.

Yet, for many businesses, existing IT systems are a hindrance rather than a help. In this senior executive update, we focus on policy systems transformation and modernization. In our view, policy administration systems play an integral part in helping insurers to improve their profitability and achieve growth. How can European general insurers realize the most value from transforming policy administration systems, and what specifically should they be doing?

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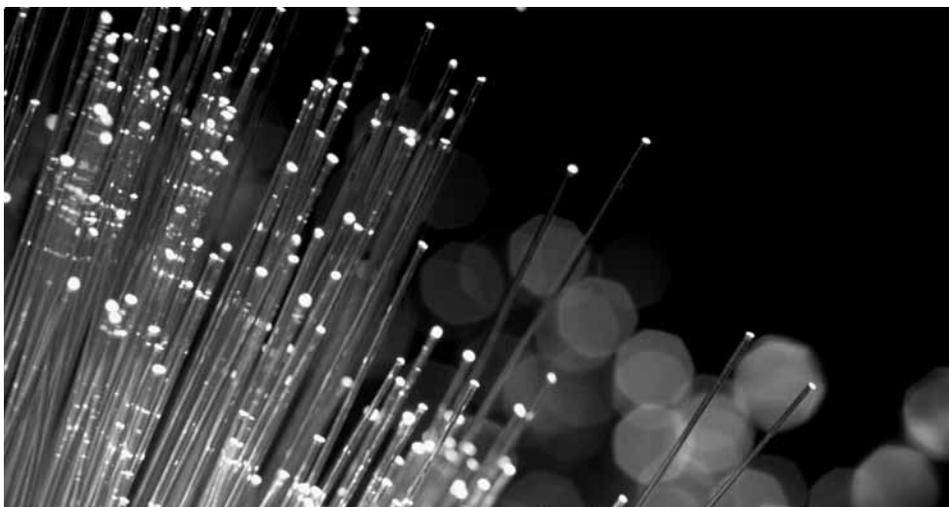
Methodology matters

A true policy administration system allows insurance companies to record the policies it has issued. As such, it tracks the terms, the coverage provided, the limits, the forms and the period in force for every policy. A contemporary policy administration system should also provide other functions as well: such as specifying the rates, rules and forms that define all the products administered by the system.

Carriers today experience a number of issues with policy administration. For example, many are being held back by multiple policy administration systems, each of which serve different lines of business, when a more simplified approach (i.e., a single platform) would allow them to be more agile. As the benefits to each firm will be unique, organizations should take a number of specific steps to articulate those that could apply to their firm.

These steps might include:

► Building an objective business case and model for return on investment

► Defining a clear target operating model (TOM) and evaluating current and planned requirements for the future process or system against industry leading practices

► Picking the right technology based on specific business goals and optimal processes

► Shaping an effective implementation methodology

Deciding whether or not invest

To articulate the benefits of policy administration system replacement for your firm, we would recommend a holistic approach to preparing a business case. Separate the business case into two parts: "soft" benefits (strategic and longterm), and "hard" benefits (tactical, detailed and midterm). Both elements are necessary and valuable, but understanding the difference helps to set realistic expectations. We would categorize benefits under four broad areas and recommend companies structure their thinking in the following way:

► **Operational efficiency gains** – policy administration systems allow carriers to refresh and innovate in their product portfolios and rethink service processes. To maximize the benefits, carriers should also account for productivity considerations in their business case development. Modern policy administration systems will enable operational efficiencies through a combination of increased automation and workflow for underwriting processes, increased self-service capability, simplified IT efforts for product design and significantly reduced data entry efforts.

- ► **Lowering the total cost of platform ownership** – modern policy platforms can enable systems reuse and legacy platform consolidation that lowers total cost of ownership and drives both quantitative and qualitative benefits. A modern policy administration system reduces maintenance spend across the IT portfolio by reducing the full-time employees count or improved talent utilization. It also simplifies the ease of integration across multiple functions through effective use of service-oriented architecture, providing uniform views of information.

- ► **Strategic flexibility** – there is clear value in creating a more nimble policy administration environment. In particular, removing constraints on product design and getting products to market quickly have the potential to alter a carrier's positioning significantly. Generally, it takes several years after implementation for this benefit to be realized – carriers with immediate cost concerns should focus their decision on other factors.

- ► **Modernizing IT and eliminating legacy platforms** – constraints on existing legacy platforms and the skills required to maintain these are real issues, but a modern policy system will not alleviate these unless a near-total decommission is on the agenda. Most carriers have multiple platforms that extend beyond the core policy administration systems, and this typically prevents consolidation or total decommissioning.

Policy administration projects often require a significant up-front investment. The complexity of delivering benefits sometimes means that payback is not achieved until four or even five years after the start date. However, highly efficient implementation can deliver some benefits much earlier, and we encourage carriers to target 12 to 18 months for initial benefit delivery. We advise against setting traditional goals for these projects, such as "15% ROE in 18 to 24 months" as it will likely lead to unmet expectations. The key thing to avoid is dissatisfaction with early results, as it will erode support for the whole project across the organization.

Decided to invest? What's next?

Define the target – look before leaping right to requirements

Once the decision has been made to invest in new systems, defining the target operating model and process analysis can seem like unnecessary delay of activities. There is often a sense of urgency to leap straight into the definition of functional requirements. This undue haste is a common cause of project failure. A policy transformation will have major impacts across all the key parts of a carrier's organization (e.g., product development, underwriting, servicing, claims, pricing, etc.) Lack of a clear TOM often results in "guesswork" for key design decisions or technology decisions being made in isolation, without any linkage to the business driver.

A TOM will help organizations to achieve simplicity in their IT estate. If the modernization of your policy systems falls into the trap of picking up and shifting the current state complexity over to the new world, a lot of money will be spent on replicating current state performance in that new world. A TOM must ruthlessly drive simplification by:

► **Simplifying the product set** – if your customers are sitting on old products, allocate funds toward moving them over to the new world, rather than spend money catering for the old products in the new world. Most policy administration programs will not succeed without simplifying the product set.

► **Simplifying the processes and operating model** – design a highly standardized set of industrial-strength processes with variations that are clearly value-creating. Only build in these standardized processes to the new world, and again, spend the money to change the business to operate with these new processes.

► **Simplifying the technology:**

  ► Don't just replace a handful of aging legacy systems and leave the surrounding IT complexity to wrap the new asset in a shroud of performance-dampening fog. Spend the money to eliminate the small satellite systems as well as the major legacy systems. Further, the new platform should have a clean and simple set of integration points with its surrounding systems. This clean and simple environment will support ongoing agility, lowering the future cost of change.

  ► Consider converting legacy data to the strategic platform. Conversions can often have significant up-front cost, but their long-term benefits can be equally substantial. Articulation of a good benefit case is a critical success factor.

Pick the right technology – stay neutral but don't forget the legacy challenge

While the vendor landscape is maturing, carriers are underestimating the amount of effort required to fully reap the benefits. Firstly, tailoring the policy package to minimize customization to where it's really needed and can't be standardized. Secondly, there are considerable process and people changes that need to be executed to unlock the value of transformation. Thirdly, the degree of change required to legacy systems is often underestimated, due to a lack of deep understanding of what these do and how complex they are. Overlooking the details can cause major problems when it comes to replacing very old IT systems, as perfect documentation rarely exists. Sometimes, the detail is in people's heads; often, it's neither written down nor in people's heads. In this case, the only way to figure it out is through long, hard analysis.

Most businesses have a few in-house "gurus," whether for products, process or IT. These are the people who have been around for quite a long time, and have an amazing propensity to absorb, decipher, store and recall huge amounts of detail about how things were and are done, across every aspect of their area of expertise. And they are absolutely vital to the success of a core system modernization effort. They will constantly raise the "But what are you going to do about …" and "How are we going to handle …" and "Last time someone tried to …" questions and issues. Including people with these skills helps to create more robust designs and better transition plans for the transformation effort, de-risking the project. However, it is always really hard to free up these "gurus" to work on a project. If there isn't a conflict around gaining permission to use this person's time, it's probable the wrong people are being targeted. It'll be either impossible to back-fill them or, at the very least, impossible to back-fill at anywhere near the same price.

Shape an effective implementation approach — one size does not fit all

While technology is usually the biggest component of a policy transformation program, successful transformation initiatives will depend on factors wider than technology. For example:

► **Availability of small to medium-sized enterprise talent** – driving change of this type and scale requires the top talent an organization has to offer. Few would argue this point; however, understanding this and actually freeing up these people from their current responsibilities are two very different things. After all, the top people will be the most heavily relied upon and hardest to replace in their current roles. Strong leadership support is therefore needed to free up these people to work on the project in the first place. When the project is complete, you need mature talent management processes and organization-wide support to redeploy these people back into appropriate parts of the business.

► **Realistic view of timelines** – policy transformation programs are complex projects that take immense amounts of effort and time. Leadership changes (e.g., new CEO, new CIO), business climate changes (e.g., the current soft market) or simple adjustments to your initial assumptions can alter the vision of a five-year project. To manage this risk, carriers should either push for change as quickly as possible, or compartmentalize the project to ensure that each piece makes sense in and of itself.
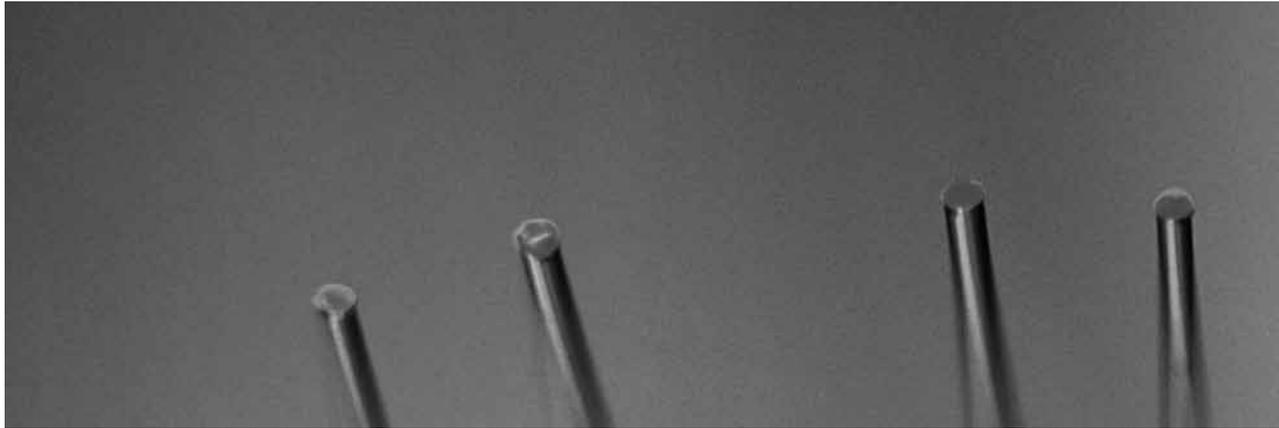
Establish the right risk-sharing model with suppliers

Insurers need a risk-sharing model that aligns the interests of buyers and suppliers over the long term. Business owners need to show leadership, as risk-adverse legal teams often make this outcome difficult to achieve. Design a partnership model that:

► Aligns the interests of buyers and suppliers to the common goal of successful overall delivery.

► Places commercial risk with the organization best placed to manage the delivery risk.

► Some organizations fall into the trap of trying to transfer the delivery risk to a supplier by fixing the price of the entire solution. While tempting, this ignores the reality that the supplier is not best placed to manage many of the material delivery risks, such as interdependencies and contention with other projects being executed in parallel. It leads to the supplier pricing in a very high risk premium. The buyer is then lulled into a false sense of security about the risks they should be actively mitigating. Others fall into the trap of overestimating their own delivery capability and taking on risks that are actually better managed by the supplier.

In summary

Typically, far-reaching initiatives such as transformation programs are launched by new CEOs or other senior executives seeking to put their stamp on an insurance company – or perhaps to bring about stability. In the current economic environment, however, a far greater number of senior managers, regardless of their tenure at a given institution, are feeling compelled to act. The reason is that insurers are being confronted by a unique environment that is putting substantial pressure on their economic performance. Getting large companies to embrace change is never easy, but bold action is required. Ultimately, implementing policy system transformation can bring enormous benefits by attracting new customers, building loyalty with existing ones, and enhancing long-term revenue generation. In the current highly challenging environment, insurers that do not explore ways to transform their companies may find themselves lagging behind their competitors.
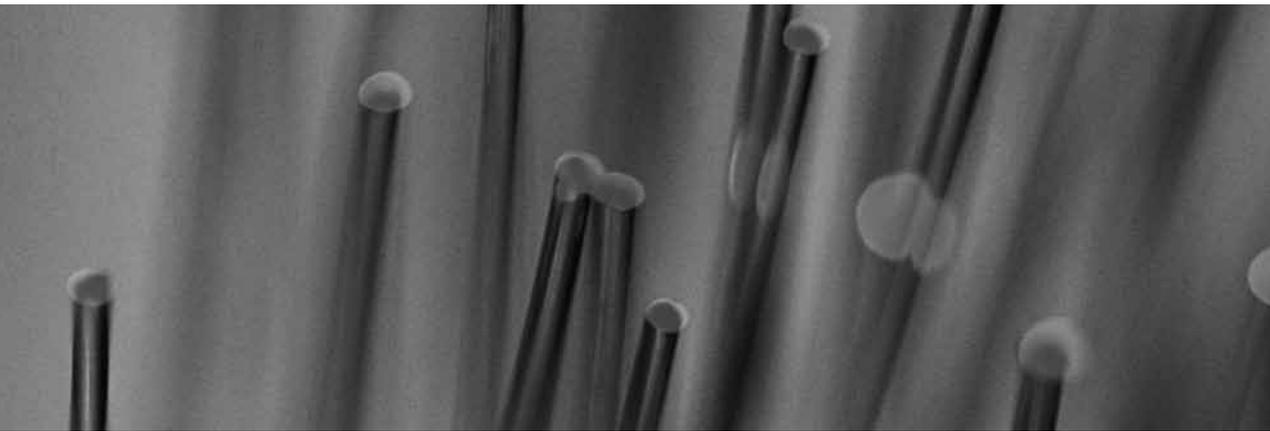
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