Capgemini

Beyond P&C:

Platform Modernization in Life Insurance and Group/Employee Benefits

TABLE OF CONTENTS

The Challenge: Old World Limitations

When trying to understand what the future state of life & annuity and group/employee benefits core systems will look like, it can be instructive to examine the property & casualty (P&C) space. Over the past 20 years, P&C insurers have embarked on journeys to modernize core systems with varying degrees of adoption and success. Several technology and platform vendors in the P&C core systems space have achieved critical mass, led by Guidewire's $7 billion market cap and Duck Creek's consistently strong growth. While very few P&C insurers have consolidated all their products on to a modern platform (or platforms), many have made meaningful progress for their critical lines of business.

Life, annuity, and group benefits providers of all sizes are playing catch up with their P&C counterparts. Change is long overdue, but insurers in the individual life, supplemental health, and group benefits space are grappling with myriad challenges:

- Aging/outdated platforms; complex infrastructure that are costly to maintain and secure
- Inflexibility and inability to support new business initiatives (e.g., new product launches/open integration)
- Inadequate reporting and business analytics capabilities
- Widespread inconsistency across channels in terms of customer experience (e.g., downtime or inaccurate data due to batch windows), weak support of some necessary channels

With Life & Annuity (L&A)/group IT budgets typically remaining flat or growing only modestly -- while CIOs are pushed to do more -- the challenges continue to escalate. Organizations must use an ever-increasing share of their budgets just to maintain existing legacy systems rather than invest in innovation. Most insurers are ready to modernize, but—not surprisingly— only a few carriers are running on the current version of these platforms. When an insurer looks at solutions that are appropriate for their needs, there aren't more than a handful of modern solutions available, that their peers use, and fewer still that are used by a significant number of insurers.

Contrary to what most insurers want to hear, there's no completely "off-the-shelf" solution for core systems modernization. A one-size-fits-all solution would be cost-prohibitive and inflexible, or too customized to be considered truly off-the-shelf. When an organization selects a solution that's not a close fit, it often ends up with another system to maintain—one that exclusively supports new lines of business or products separate from the firm's legacy systems. It often lacks the breadth and flexibility to achieve end-to-end business model transformation that does better things and does things better. It also adds cost to the already-crushing legacy maintenance burden. In some cases, this approach may be warranted to allow an insurer to get new products out the door quickly, but even then, the insurer should have a plan for the disposition of at least some of the remaining platforms.

In reality, system replacement is just one of many options. Though critically imprortant, it is just one piece of the puzzle.

This series of posts explores:

- Critical systems insurers must address
- How to address system challenges, whether via replacement or other options
- The transformation process
- Best practices for modernization and transformation to achieve business goals

Transformation as the Core, Not Just of the Core

As the financial services market undergoes seemingly real-time changes, life insurers find themselves compelled to examine the way they do business.

Transformation offers the opportunity for a blank-slate organizational redesign that streamlines processes with a better customer/agent/employee experience—and at a lower cost. Automation without modernization is often referred to as "repaving the cow path" (it's been said that automation without transformation simply allows for executing bad processes faster). Modernization of a carrier's core platform can help to reshape functional business processes and refocus priorities on dynamic sales and service that continually exceeds the expectations of its most valued customers.

However, modernization via system replacement is not the end goal. **System replacement doesn't transform business; system replacement enables transformation.** Business process redesign can selectively realign resources with the needs of agents/brokers, customers, and market opportunities. It can transform the experiences of valued current and prospective customers by converting homogeneous "transaction centers" into differentiated "sales engagements." System transformation can substantially increase the digitalization of both direct and indirect delivery channels.

Transformation can do many things across all aspects of a carrier's business. Most importantly, it can shift a carrier from a policy-focused, agent-focused, or account-focused approach to a relationship focused one, allowing the insurer to participate in customer engagement even in an agent-driven model.

Another key outcome of a modernization program should be to raise the bar on operational effectiveness. Improved operational effectiveness in end-to-end process integration is the core driver for the operations elements of redesign and the key to leveraging straight-through processing (or as close as possible where manual steps are required). A modern platform can simplify, streamline, and often eliminate, cumbersome, manually intensive, redundant procedures by automating routine tasks and centralizing operationally intense activities.

End-to-end process redesign will form the platform for a timely, integrated sales process at the front end of clients' experience, and prompt, effective service and problem resolution at the back end of the relationship between carriers and clients.

With many options available, choosing the best path to modernization requires three essential phases:

1. Methodical assessment and planning
2. Transformation
3. Management of the modernized portfolio (once in place) using an efficient approach

At the outset of any modernization initiative, as a best practice, insurers should adopt a methodical but flexible framework that includes components to analyze, align, modernize, manage, and continuously improve application portfolios. The framework should be able to serve a single application, a full platform assessment, a transformation project, or an entire global enterprise portfolio. It provides the foundation for real work as insurers assess the opportunity, transform the business, and manage the implementation.

These three distinct phases build upon each other but enable modernization projects to proceed concurrently.

Portfolio transformation roadmap

The first phase is methodical assessment and planning. Begin by thoroughly assessing the current state of the application portfolio and its alignment with the current business strategy. Dive deeply into high-priority areas and quantify the business value of an optimized portfolio. Phase one also includes developing a modernization architecture and a roadmap to be used during phase two, the transformation.

Insurers that are transformation leaders embrace systemic change, especially when it comes to organizational structures, cultures, and human talent. These dimensions are frequently overlooked or undervalued by less mature firms (or leaders who don't embrace change), and by those just commencing their transformation journeys. Transformation leaders should also clearly focus on customer needs and new business models.

Measure success holistically and beyond-purely financial metrics (such as cost reduction). High-maturity transformation organizations and leaders think, organize, and act differently and more holistically in these areas:

- **Strategy**: Mature transformation organizations create holistic strategies that embrace continual improvement centering on customer outcomes rather than just departmental success
- **Structure**: They organize around cross-functional, customer-centric structures
- **Culture**: They socialize customer-obsessed values to create a culture that prioritizes and rewards outside-in perspectives, while nurturing digital skills that enable innovation
- **Technology**: They utilize modern, off-the-shelf software packages (or when needed—but only when packages aren't available—modern software design, development, deployments, and delivery models) to automate processes and legacy systems, drive speed and agility, and eliminate redundancies
- **Security**: They build customer trust through accountability, transparency, and security, while maintaining excellent customer experiences, weaving security tools, and best practices into all aspects of the enterprise technology portfolio and the company culture.

The second phase is transformation. At a tactical level, the carrier prepares, tests, and releases new and/or newly optimized applications into production. This step may include data conversion, new infrastructure introduction, and integration with other systems. At a strategic level, the most advanced organizations deeply weave transformation and innovation together.

In some cases, strong innovation teams drive transformation. In others, successful transformation leads to increased innovation in terms of output (such as new products or business models) and organizational capabilities. Whether innovation drives transformation or transformation drives innovation, the following outcomes and capabilities often result:

- Agility to enable digital strategy and flexibility to effectively respond to industry changes and market opportunities in line with overall business strategies
- Advanced data and analytics capabilities that apply real-time artificial intelligence (AI), machine learning, and predictive analytics to determine next-best actions to deepen customer relationships and drive efficiency
- Viable products that are clearly defined and well-executed, which address key business and technology challenges, provide automation opportunities and improve CX across the value chain
- New business models that operationalize innovation and transform the customer experience (CX) across segments and channels
- Use of packaged/third-party business and IT platforms to shorten time-to-market and streamline product development and launch
- Creation of a transformation program foundation by focusing on innovation at all maturity levels while enabling technology and increasing automation (note that broad-based, multi-dimensional change that prioritizes organizational and human factors is often the critical difference between leaders and laggards)

The third phase is the Management phase. The carrier introduces new, streamlined processes for internal operations and external vendors and partners. This step focuses on both cost transformation and operational goals, including increased speed, improved services, and other improvements to processes that impact customers, agents, and employees.

The ability to measure transformation success sets leaders apart. There is a direct correlation between objectives, metrics, and impacts experienced by leaders versus laggards. For instance, firms achieve the best outcomes when customer satisfaction is the top priority. We have found that digital transformation leaders treat tracking customer satisfaction as a discipline and proactively use those measures to adjust their course as needed.

Without the KPIs or other metrics to measure these types of improvements, it is impossible to track and measure them, and the outcomes tend to be noticeably worse; however, tracking metrics without using them to guide the business is nearly as bad.

Assess, Transform, and Manage is a modular strategy that considers the entire life cycle of the portfolio. This framework helps organizations know when to replace platforms and when to look for other opportunities for modernization. Many carriers are at the beginning of their modernization journey, and it makes sense to start with portfolio planning. Other companies are underway but need to evaluate emerging options, such as cloud-based deployment.

Regardless of the circumstances, it is essential to remember that modernization is an ongoing program and not a one-time project or initiative.

Not Just Another IT Project – or Is It?

Some carriers focus narrowly on technology rather than on the broad needs of the business. An IT-centric approach might miss opportunities to align the firm's current and future business needs with its technology needs. To ensure such alignment, both IT and business stakeholders must participate in the process. Too often, IT tries to represent the business or vice versa, only to realize its knowledge of the other's goals and requirements is insufficient.

While rare, there are situations in which these solutions are implemented as IT projects for valid reasons. In the case of a burning platform, there may not be time, budget, or engagement/bandwidth/capability on the business side to go with a full-fledged transformation. In other cases, there may be a small but strategic line of business that needs to be brought up quickly and may be managed separately from the rest of the business. However, even in these cases, business transformation should be considered on some level within any core systems transformation.

In all other cases, before carriers transform policy administration, they must first identify the business needs, challenges, and drivers that are essential to business agility (e.g., speed-to-market, growth, customer centricity, and operational excellence). Next, they need to begin planning by coordinating business and IT strategies and interests. Most CXOs talk about the alignment of IT and the business, but talk is not enough. Too often, alignment boils down to the business saying, "We know what IT can do," or with IT thinking, "We know what the business wants."

The business may not consider the benefits or limitations of emerging technologies such as cloud, open APIs, or the potential of straight-through processing performed via BPM, RPA, and AI. And because members of the IT team may not consider the potential to change business processes, they don't always take full advantage of new technologies. As a result, the firm may overlook considerable transformational benefits.

Most organizations make plans based on their current state, not on the future business environment. In the case of policy administration system modernization, organizations must focus on upcoming products (some of which may not even be in the pipeline yet), potential markets and future service strategies.

Minimally, organizations (including IT) must understand the business strategy for the upcoming three or four years and the insurance product strategy for at least the next 18 months. The IT organization must gauge the impact of those plans on the entire application portfolio (and even the infrastructure) to determine whether (and when) new technologies are necessary. Can the technology organization handle the planned changes to the business using the proposed platform, or—in extreme cases—veto the potential solution?

Despite the clear need for IT and business to extend their relationship beyond alignment, some carriers still view system modernization efforts as primarily an IT initiative. However, many failed projects over the years indicate that without full business support and involvement, modernization efforts are apt to lose momentum and stall.

Without a clear business case (not just a cost/benefit analysis) and executive support, modernization efforts have limited potential for success. All too often, the definition of success differs among people in various parts of the organization.

A key objective of the process is to define the future state with input from stakeholders across the organization, including operations and IT.

> Can we do better things and do things better? Can we introduce products faster? To what extent do we have/want straight-through processing (STP)? Will our retention levels for agents and customers beat industry averages? Will we reduce not-in-good-order (NIGO) and not-taken rates? Can we lower costs? Will all channels deliver similarly outstanding client experiences? Should they? Can we boost client profits? Product profitability? The productivity of a specific distribution channel? Can we even measure these things?

Unfortunately, when undertaking an application portfolio review, most of the evaluation centers on the technical condition of the applications within the portfolio, not on the business value and alignment each application provides. That's why the industry's most successful modernization initiatives focus on transformational results.

With each new success, business transformation becomes more deeply embedded in an organization's core agenda, and over time the agenda begins to incorporate business transformation as its core.

Understanding the Keys to Selecting (or Not Selecting) a Modern PAS Platform

When trying to understand what's new in the world of core insurance systems and how that should affect your evaluation and decision-making process, perhaps the first question to ask is, "Why this, why now?" Several critical disruptions and drivers are prompting carriers to evaluate their Policy Administration and Servicing (PAS) options, including:

- Consumer/agent/employee expectations around agent/customer/employee experience (UX/CX), are influenced by Amazon, banks, travel companies, apps, etc., not by other insurers. Even home-office employees expect a reasonably modern experience, or else recruiting/retention can be hindered.
- Direct-to-consumer and direct B2B business models are on the rise and require 24 x 7, real-time, web-based systems.
- Burning platforms are not uncommon, especially as a carrier looks to refresh previously dormant business lines. Even if a platform isn't truly burning, inflexible legacy systems often prevent releasing new products (or make them impractical from a cost or time perspective).
- Greenfield carriers, including InsureTechs, are starting from a clean slate, and it may be impossible to compete with them using inflexible legacy solutions. Similarly, a digital-first/mobile-first approach is increasingly required; that's far more practical with a modern platform.
  - P&C insurer Lemonade should serve as the canary in the coal mine for life/group insurers; competition can come from anywhere and may not look like anything you've seen before. Disruption is difficult or impossible to predict.
- Modern platforms have matured significantly in the last few years, and there has been significant vendor consolidation, M&A, and investment (PE and VC).
- Carriers are looking at a cloud-first approach to move away from data centers, expensive maintenance of mainframes, etc.

COVID-19 is amplifying the challenges of legacy and other on-premise platforms, and of business conducted via paper or proprietary desktop applications. It puts a spotlight on the need for a digital-first, customer self-service, agent self-service, non-legacy model. With these initiatives in place, field agents and policyholders challenged with pandemic-related stay-at-home orders could efficiently transition and conduct business much more effectively.

When contemplating whether to replace one or more legacy systems with a modern policy administration system or suite, consider various drivers and trends.

First, the maturation of modern platforms in both individual life/annuities and the group benefits space is arguably the most significant change in the industry over the last few years. Second, specific to the individual L&A space, one of the most critical recent developments has been a fundamental change in thinking around conversion. It is also critical to understand what goes into making a good choice for your specific needs when selecting an approach to modernization and, if appropriate, a platform (Hint: neither a Magic Quadrant nor a Magic 8-Ball will solve this for you!). Finally, understanding what makes a great platform should itself be a key aspect of the process.

The modern core platform modernization and maturation process has been incredibly slow and unsteady within the industry. The start of the modernization movement in L&A is hard to pin down. Some would argue that Solcorp Ingenium's portal capabilities or their acquisition of Essentium (ProductXpress) were turning points. Others might point to the 1991 founding of NaviSys. Perhaps it was the start of AdminServer in 1998. Still others might claim that the real work didn't start until later.

Regardless, a series of unfortunate events—together with exceptional risk aversion—stymied industry modernization. Even today, a small fraction of life business runs on a modern platform, which we estimate is under 20% based on the number of deals reported, press releases, etc. These far-reaching events had a chilling industry impact: 9/11 in 2001, the FINANCIAL CRISIS followed by the Great Recession (2007 -2009), with shocks reverberating through to 2011, and then finally, as L&A insurers were beginning to make significant investments, the 2020 COVID-19 pandemic turned strategic priorities upside down (though IT budgets seem to be surprisingly resilient as of the publication date).

The unfortunate result is a dearth of modern system vendors and limited references for those that do exist. Products are maturing, however, with support from leading carriers (e.g., MetLife, Lincoln, Allstate, etc.) that are implementing modern platforms for at least portions of their business.

Modern platforms are increasingly an out-of-the-box proposition in which implementation is about configuration and integration, not customization. A good number of platforms now support either most individual lines or most group lines with well-developed templates. A handful of platforms even support most of one and some of the other. Some modern platforms strongly support straight-through processing. These features together can support a massive change in the flexibility of both IT and operations. (based on the number of deals reported across analyst reports, press releases, and other data, we estimate well under 20%)

A Practical Guide to Superior Performance: Focusing on the Portal and Policy Administration

Insurers would be wise to understand and consider all available options before making significant decisions about upgrading, replacing, or integrating systems. There are many approaches to modernizing an application portfolio. Particularly for the individual life segment of the industry, converting an entire book of business can be prohibitively expensive. Since some blocks of business can be substantially more expensive to convert, it is best to consider the appropriate options not as a whole, but on a block-by-block basis to potentially develop a multi-option, cost-effective solution that bolsters the firm's strategic aspirations. Unfortunately, many third-party vendors and consultants don't have a full grasp of the challenges facing insurers across the portfolio. They lack practical experience in business transformation, or cannot help to implement systems and processes across the enterprise. Whatever the reason, many vendors aren't giving insurance companies the whole story.

To fully benefit from modernization, an insurer must understand all of the available options—including their strengths and weaknesses—in order to select the right one (or the right combination of options). Those options (which many vendors and consultants may not fully understand, offer, or otherwise share) include:

(A) New modern platform option

System replacement may only solve part of your problem. It is by far the most common step recommended by vendors, but insurers seldom hear all the facts about the potential costs and impact on the current environment.

For policy administration systems, for example, a replacement system may be implemented for new products only, and the older systems retained or outsourced. Another common strategy is to replace and convert the older in-force blocks into the new system. The benefits of system replacement can be significant—the ability to deploy new products or functional capabilities, the ability to provide web-enabled producer/customer self-service, and the ability to reduce the complexity of existing business processes, to name a few.

However, adding a new policy administration system without retiring another makes the system environment more complicated because it is a new application that must be maintained. Long-term plans for managing or retiring existing systems, including the costs of conversion and infrastructure, must be a part of in the business case for the new system. While it is the ideal approach in a vacuum, system replacement and consolidation may be impractical for various reasons:

- No credible vendor package is available
- There is no business mandate to support large-scale change (or willingness to compromise on requirements)
- The functional gap between systems is too significant
- The cost of replacement is too high for the size of the company

It is strongly advised not to customize the new platform at all if possible, and no more than is absolutely necessary. Most vendors don't mind if you want to customize their software if it means more services revenue and possibly more retrofitting work down the road at upgrade time, so they may not stop you from customizing even though you shouldn't. Historically, most carriers purchased an administration platform and customized the source code for their specific requirements, or they simply patched an older version of the system to meet new business needs, such as new regulatory requirements.

Customization can be a way to add new functions and fix problems faster than keeping the system updated to the most current release. However, this creates long-term consequences as it is not uncommon for some carriers to have modified as much as half of the original source code over the years to meet their custom requirements. What saves in the short term almost always costs more over time, and when carriers must update that old release, they must deal with a plethora of custom in-house modifications that can be expensive to retrofit. So, So, insurers should be wary of this strategy.

Whether the target system is one of the existing systems used for the administration of closed blocks or in this case a new, modern system, some data conversion considerations are available to simplify conversion.

- **Conversion with system modifications:** This is the default, and the costliest plan—not only is all of the data migrated for all products, but all the functions available in the source systems are supported in the target systems. This often requires some level of modification and/or enhancement to the target system(s), especially if you are trying to recreate functionality for products that haven't been sold for 30+ years.
- **Fully converted data:** This is the default option for data conversion. All data supported by the target system is transformed, including all of the required historical data, and normalizing the data structures if the target system requires it. It does not assume need to be able to automatically re-create transactions in the past; rather, it just ensures that all of the data is stored in one system and that manual transactions can be done on closed blocks if needed.

- **Conversion with data modifications:** It is not always a given that all data supported in the target system needs to be provided in the conversion. In this approach, the full functionality is not migrated, and since the target system may possibly provide storage for extensive historical data that is not available in the source system (e.g., it may have more fields than the source system), it may be worth considering converting to the source system with limited historical data. Should a transaction be performed on the converted policy that requires the historical data, some level of manual processing and access to non-converted data will be required. The need for—and the support of—such processes should be recognized and included within the conversion plan.

In many cases, full conversion is not done, and one or more of the options below are used instead of or alongside these conversion approaches. As noted previously, sometimes a new platform is used only for go-forward business and no conversion is done at all. Accordingly, analyzing each block of business and making a decision early on is critical.

One final option for getting new products out to the market quickly is to leverage a third-party administrator (TPA) with a modern platform. This allows an insurer to get up and running on a modern platform quickly, while also taking advantage of the shared resources of a TPA to get operations for the new product up and running quickly.

(B) Refurbish and/or Wrap/Extend:

While it's difficult to believe this is still an option for consideration in the 2020 decade, portfolios based on outdated products with complicated features may simply not be serviceable on a modern platform at a reasonable cost, or the conversion cost may simply be prohibitive. Rebuilding a home grown or legacy vendor solution is often not plausible, as it can require extensive and expensive efforts to recreate the functionality, business rules, etc. The process of rediscovering an application's business requirements and redeveloping it from the ground up may only be practical for specialized, proprietary applications, and even then is likely unrealistic. It probably makes more sense to look for a configurable software package that can perform the needed functions. Unfortunately, many insurers over the years have tried to rebuild their core applications and failed.

Recently, wrap-and-extend has become a more viable option, with a handful of solutions becoming available that offer an approach of "everything but the core." These solutions aim to replace essentially all functionality of a core systems suite except for policy processing/transaction processing, but in a modular approach that allows you to wrap-and-extend wherever pain points exist. This "hollow the core" approach can minimize dependence on the legacy platform and make it easier to migrate away from the legacy platform later.

If the alternatives are simply impossible, rather than rebuild a homegrown or legacy platform, insurers should look to embrace "legacy revitalization," in which the code is simply refactored, moved to a lower-cost platform (e.g., the cloud), and wrapped with modern components, APIs, and/or web services to provide a serviceable platform without the costs of conversion and rebuilding. This is far from a preferred solution but may at times be necessary.

In today's environment, with technologies and standards changing every 18 months, the prospect of a multi-year development project, with multiple iterations of testing and performance tuning, is too overwhelming for most IT departments even to consider. While the build-it-in-house option used to be foremost on IT department agendas, few if any companies today seriously consider rebuilding a legacy policy admin system.

(C) Run-off option:

Sometimes it's okay to do nothing for select blocks. Typically, 80% of the cost of a conversion comes from 20% of the policies. As a result, it may not make sense to move that remaining 20%. Depending on the application and its organizational function, the best strategy may be to leave the legacy application in place for those policies and focus on reducing maintenance costs (which may be more plausible once the platform is supporting a much smaller block of business). Systems supporting small blocks of business in run-off or even larger non-strategic closed blocks that could be packaged and sold are potential candidates for system retention. Remember, though, that retained systems contribute to ongoing costs, requiring specialized teams to maintain and use, though this may be a lesser issue in cases where other applications continue to reside on the mainframe anyway. At a time when most insurers have moved or are starting to move to shared services organizations, these pockets of specialization could prevent both IT and back-office managers from achieving full value from internal consolidation efforts. This needs to be carefully weighed against the cost and risk of full conversion.

In general, it is best for a carrier to adopt a plan to retire its legacy systems—and stick to it. Most software vendors are more concerned with selling new systems than helping to retire old ones. It takes effort and dollars to move policies off the old system, archive the legacy application's data, and decommission supporting infrastructure. It can be a challenging project because of the lack of documentation or data—or both—but the more legacy applications retired, the higher the cost savings are from ongoing maintenance of hardware and software. This helps insurers meaningfully shift their IT spending to more business-focused initiatives rather than "keeping the lights on."

Moreover, companies can manage operations more effectively with common technologies and processes. For legacy policy admin systems, the system can only be retired after all in-force blocks are converted to another system. When you accomplish this, you no longer face cross-training employees on multiple applications, and, as long-time employees retire, IT programs won't need replacements with skills in older technologies.

(D) Alternative Options: Divestiture (Sell the block), ITO/BPO/TPA, Policy Exchange:

The divestiture option is perhaps the simplest. It involves selling a closed block of business and all its assets and liabilities to another business entity. Clearly, this approach relieves the enterprise of the need to operate any system to support the closed block. Conversely, all the portfolio's business value, other than the purchase price, is also lost to the enterprise. If a block of business is not strategic and the conversion cost is prohibitive, this may be a viable option.

Alternatively, it may be time to outsource systems (ITO), processes (BPO), or both third-party administrator(TPA). This could include a "lift and shift" ITO approach, which is typically provided by an outsourcing vendor to manage the application for a predictable cost on a long-term basis (sometimes cynically referred to as "your mess for less"). Outsourcing technology enables organizations to refocus resources on IT activities that support the core business while leveraging third-party expertise and efficiency. Historically, this strategy came with a limited set of options. More recently, however, as systems have become more component-based—and as APIs and web services/microservices have become more prevalent—IT outsourcing can be effectively applied to much smaller pieces of the business. For instance, outsourcing can be used to support application development, maintenance, and infrastructure.

Similarly, discrete business processes can be outsourced (BPO), such as customer billing, printing, and mailing. As with ITO, this can help a carrier focus its resources on high growth or otherwise strategic areas. Consequently, interest is high in outsourcing legacy blocks through business process outsourcing (BPO), and application management. In some cases where the conversion costs may not be prohibitive but a line of business is not strategic, carriers may elect to leverage a third party administrator (TPA), opting to convert a block of business over to a TPA's system, where the TPA then runs both the core systems and some or all of the business processes for the insurer.

It may also be possible to simplify the conversion problem by exchanging policies for a more straightforward, easily administered product. If the exchange does not disadvantage the policyholder, such exchanges may be legal.

(E) Upgrade or consolidate option:

It may be possible to upgrade a vendor package solution instead of "ripping and replacing" it. For companies with vendor-supported applications, upgrading to the latest version is a common strategy for modernization. While this may leave you on legacy infrastructure, some vendors of older platforms have continued to make improvements such as adding APIs, shortening batch windows, or other vital changes. In some cases, vendors have even refactored their codebase (e.g., from COBOL to .NET or Java) to allow migration away from mainframe/midrange infrastructure. However, typically there have been few (if any) vendors that have fundamentally migrated their platforms from legacy to a truly modern, configurable one. Unfortunately, many insurance companies also wait too long to take advantage of their vendor's modernization program. In addition, many vendor applications have come and gone over the decades, leaving insurers with unsupported applications and no migration path to a new system.

Where there is still an upgrade path available, thanks to years of missed upgrades, organizations often face a major licensing decision and/or complete system replacement instead of a series of routine upgrades. Equally challenging is that by the time insurers decide to consider an upgrade, they are often challenged by their penchant for revising and customizing the vendor's code. Too much customization makes it difficult for companies to port these changes to the latest version of the software. Once two or three opportunities to upgrade are missed, the vendor system essentially becomes another legacy system maintained by the company's IT department. As with the other approaches, insurers must weigh the costs and benefits of a continuous upgrade program against those associated with a big-bang upgrade or complete system replacement.

Consider converting your policies to a strategic in-house platform. While converting onto a modern platform is ideal, one of the next best responses may be to rationalize additional platforms and custom solutions that have come into the enterprise through mergers and acquisitions by converting the business onto a single in-house platform. Consolidating to an existing strategic system that can carry the merged business into the future may not achieve many of the business benefits of modernization, but it can potentially achieve many cost reduction benefits. This approach preserves the investment in company-specific system functionality while increasing the in-force policy volumes on the strategic, in-house platform. So, choosing a target platform with proven scalability is critical. Conversions will often have high up-front costs, but their long-term benefits can be equally substantial. The articulation of a good cost-reduction case is a critical success factor.

Before going this route, insurers should seriously consider first undertaking the "legacy revitalization" options noted earlier (for home-grown solutions) or the upgrade approach discussed earlier in this section. These can help further reduce costs and/or risks and improve the longevity of the strategic solution.

(F) Modularization option:

One extension to the wrap-and-extend approach is modularization. System integration using web services and APIs is a substantial step in the right direction, but it is no silver bullet. To support complex systems environments, many insurance companies have attempted to service-enable their policy administration systems and add or replace components. Vendors are quick to recommend modular, externalized systems such as rating, billing, and claims that can be interfaced with legacy systems through a service-oriented architecture (SOA).

For this strategy, monolithic applications are partitioned off, allowing portions of the functionality to be externalized. A fully component-based system would, in theory, allow users to mix-and-match components as needed. This flexibility comes at a price, though, as the number of interface points increases. Therefore, clean component boundaries are imperative. As a matter of practice, the carrier often turns off or bypasses functionality in the old system in favor of a new dedicated application component for handling functions, such as new business or distribution management. Wrapping is a common strategy with predictable costs and well-tested patterns.

One common approach is to wrap systems with a common user-interface—often in the form of a portal—which masks the quirks of each system from the user. More recently, the focus has been on wrapping systems with service layers that let them plug into service buses (which can then be accessed by, for example, a portal); this architecture promotes reuse and high-level process assembly. This strategy makes sense for companies seeking short-term improvements to specific processes affected by several legacy applications.

Customer service and claims are prime areas of the enterprise that can benefit from this approach, enabling the IT staff to be more responsive to the business. However, if legacy systems have fundamental technology issues or can be converted and decommissioned quickly, a modular approach featuring wrapping may not be practical. While many organizations view SOA as a silver bullet for integration woes, it doesn't eliminate the underlying legacy system complexity, drag on costs, or achieve business agility.

The Modern PAS: Benefits and Getting Started

Some benefits of a modern PAS are obvious (provided the selected PAS is a solid choice):

- Improved experience for home office employees, agents, customers, employers/employees (group benefits)
- More responsive product development (faster time-to-market, more flexible product design, etc.)
- Reduction/elimination of batch cycles
- No reliance on mainframes, midrange computers, or—for many SaaS solutions in the cloud—even servers
- Flexibility to make changes to products, business process, or technology much more quickly and easily
- Improved automation and workflow
- Better access to data/better data quality

However, some benefits are perhaps less obvious. These less apparent benefits may be critical to pushing a business case past the debate phase and to the approval phase. These benefits typically come from transformation planning, not just from a systems replacement plan. For example, insurers often don't include in their business cases the ability to drastically reduce acquisition and service costs through enhanced self-service (for group benefits, this could include fully automated census upload and processing, or online list bill reconciliation; for individual life, self-service quotes for loans could be done by customers). A modern PAS often enables open APIs, web services, and microservices, which can drastically reduce future integration costs.

While many benefits are inherent to having a modern PAS in place, some benefits require transformation planning to be done and careful planning to achieve. One example of this would be true straight through processing (STP). Some modern platforms are designed to allow full STP, even for complex group products, for all aspects of the product and client lifecycles from enrollment to issuance to claims. However, to achieve STP, a modern platform that supports it is not enough. An insurer must carefully evaluate its underwriting rules, auto-adjudication rules, and even product features to determine if these types of items can be tweaked to increase STP levels, or if new product variants should be considered as an example of how to take full advantage of the platform. This is just one example of many "hidden" benefits of a modern platform.

Another key to reaping benefits from a core systems replacement is reducing the number of systems to be managed/licensed/maintained. Nearly every insurance carrier has a unique application portfolio and a unique set of challenges, but relatively few of them have taken the necessary steps to reduce complexity by substantially reducing the overall size of the application portfolio. In fact, it's not uncommon for insurers to intentionally or unintentionally end up adding a modern PAS to its existing portfolio of admin platforms without retiring two or more in its place. However, consolidation of multiple PAS platforms into a single modern one is a best practice where it is practical (as addressed elsewhere in this series). In addition, some modern PAS can also replace existing platforms for underwriting, claims, document management, commissions, and more, leading to further consolidation of the application portfolio; however, this only works well if other admin platforms are retired.

Even if full consolidation isn't possible, any consolidation helps. As an example, we recently worked with a top-tier life and annuity company which had merged with another major insurer and consolidated multiple systems on to one platform. However, it proved to be cost-effective to retain some of the legacy systems and wrap them using a surround application to provide a common user interface. The company immediately lowered its IT maintenance costs (dealing with a single UI and a reduced overall systems footprint) and adopted a long-term roadmap for continued modernization and consolidation.

Following a methodical—though flexible—modernization framework can help to achieve transformational change throughout an organization. By both modernizing and simplifying portfolios, insurers are increasing agility, improving service, and reducing operations and IT costs, which in turn is freeing up funding to support new IT and business initiatives.

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