

Rules-based, configurable policy administration systems have proven themselves in the market. But packaged solutions aren't right for every insurer. Fortunately, other, more flexible alternatives to legacy systems offer new options to carriers that need to modernize their core capabilities.

Creating the Right Fit



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INSURERS SEEKING TO MODERNIZE their core systems have better options today than they've had in a long time — maybe ever. The newer “rules-and-tools” configurable systems have demonstrated the viability of modern technology and changed how insurers evaluate the trade-offs they face in modernization initiatives. But trade-offs still remain: simple replacement of old with new technology is not a solution for all carriers. Happily, alternatives have been evolving in parallel to the new core systems packages, improving the chances for success of outlier insurers whose business models make packaged approaches less attractive.

Modern policy administration packages are still evolving, which means that insurance CIOs must still weigh the virtues of configurability against deep functionality, acknowledges Brian Desmond, VP of marketing for San Mateo, Calif.-based Guidewire Software. “No modern vendor has all the bells and whistles of the older vendor systems,” Desmond concedes. “But it's only a matter of time before they do.”

Today almost any carrier can find a modern packaged system that would be viable, if not exactly ideal, argues Chad Hersh, a principal with research and advisory firm Novarica (New York). Insurers can choose among available options whether they want to use a system to liberate them from processes dictated by antiquated systems

capabilities, bend a system to their vision of process or anything in between, he suggests.

In recent years, the drama of modernization initiatives transformed from narratives about failing rip-and-replace efforts involving large monolithic systems to stories of challenged implementations of new configurable systems, Hersh reflects. But even those stories are largely in the past now, he says, adding that we can gauge the industry's progress by how routine — and even boring — successful rules-and-tools implementations have become.

Packages, however, still are not the be-all and end-all for the industry. “Although packages can be almost infinitely flexible if they're built right, there will always be cases where a package won't fit,” Hersh com-



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ments. "Just because packages have matured doesn't mean development on other options has stopped." Hersh cites component-based frameworks, such as life insurance-focused FAST, an Edison, N.J.-based company formed by former Navisys executives that uses a development framework resembling the approach originally taken by software companies such as OneShield and Wyde for the P&C industry.

Insurers also are enjoying successful modernization initiatives by adding critical components that leave legacy back-office capabilities more or less intact, reports Kimberly Harris-Ferrante, VP and distinguished analyst with Stamford, Conn.-based Gartner. "Five years ago, if you had a problem with a system, you had to replace it completely," Harris-Ferrante says. "Today you can buy smaller application footprints, such as an underwriting system, and substitute it for existing functional capabilities within a policy administration system."

Harris-Ferrante also notes the increasing use of business process management to externalize hard-coded capabilities and serve as an enterprise tool for managing diverse core systems that may include a combination of legacy and modern technology. "For years we talked about systems almost as if they were islands," she says. "Now we see more management of data and process associated with multiple systems at an enterprise level."

New Approaches, New Challenges

The ability to either configure systems or integrate them from an enterprise perspectives relieves insurance CIOs of being beholden to the business process assumptions imposed by their choice of system, notes Frank Petersmark, CIO advocate of Farmington Hills, Mich.-based consulting firm X by 2. Petersmark relates that as CIO of P&C carrier Amerisure (Farmington Hills; \$488.6 in 2010 sales) — a post he held for 12 years ending in 2010 — he took an approach that was a hybrid of "buy" and "build" through a close relationship with a software partner.

"Our first step was to determine the optimal processes for ourselves and then figure out whether there was something in the market that came close to it," Petersmark recalls. "That was somewhat utopian in those days, but the dream is closer to reality today with the flexibility enabled by configurable systems and component approaches."

Carriers enjoy less-risky options today that are likely to make for a better fit for their process needs, Petersmark continues. However, he cautions, "It's still incumbent upon the carrier to identify the right solution and partners, especially in the case of outliers with less-conventional business models."

But carriers face other challenges, too, according to Gartner's Harris-Ferrante. Many insurers, she insists, lack the "culture of configurability" necessary

to take advantage of new systems. "Configuring a system is very different than customizing a system," Harris-Ferrante explains. "You're writing workflow rules as opposed to writing source code, so it requires different process and methodology."

Harris-Ferrante adds that while the evolution of alternatives to packaged systems has helped reduce the risks associated with modernization, it brings other costs. "We have more options than ever to address legacy today. However, almost every option is not simplifying but adding more complexity to the IT landscape as well as creating the need for a wider range of IT skills," she comments. "IT organizations will have to grow and adapt to handle these needs."

A Collaborative Effort

Austin, Texas-based National Western Life (\$1.6 billion in total 2010 premium) has enjoyed a durable record of success through its conservative financial management and a unique business model that includes significant annuity distribution in 49 states as well as accepting applications and issuing policies to residents of various countries in Latin America, Eastern Europe and Asia. However, by 2008 the company's legacy policy administration system and supporting subsystems had nearly reached the limits of their durability. Since continual development of new products is core to National Western Life's business model, the carrier sought to renovate its total systems capabilities, including core systems, according to SVP and chief administrative officer Mike Hydanus, who was hired to drive the transformation.

"Our approach was to assess the whole market and identify a partner or partners who could help us produce the best outcome," explains Hydanus, adding that he approached the task with an open mind rather than a set strategy. "What we did not want was to end up with an outsourcing relationship or a solution where the product would control our business model."

National Western Life's IT team also gravitated toward contemporary technology, seeking to avoid ending up with what Hydanus terms a tired, second-generation policy administration system. "Why end up in a position where everybody says, 'All this effort and investment should have taken us further?'" he poses.

Hydanus decided to collaboratively build a bespoke system with critical partners that could bring both advanced technology and a market track record. He cites Exton, Pa.-based iPipeline as core to the company's retail sales automation as well as FAST's component-based development framework.

Hydanus distinguishes National Western Life's relationship with FAST both in terms of the highly collaborative nature of the work between the carrier's IT staff and business partners with the vendor and also how FAST's toolset differs from the approach of rules-based, configurable policy admin

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systems. "In essence, a rules-based system says, 'Here are 500 dials; turn those dials and your system will behave in a manner consistent with the settings,'" he relates. "The FAST approach says, 'Forget about that: Describe to me the application functionality in a layer model, describe the user database and the orchestration in an externalized manner, and the 8x tool [which National Western codeveloped with FAST] will build the application.' It really is a highly customized, componentized and novel approach."

Hydanus also stresses that National Western Life's modernization effort goes beyond policy administration. "Certainly that's the core, but the project includes all new-business functionality through claims, re-insurance, repetitive payment, etc.," he says. "The project also includes working with other partners to integrate actuarial support and financial solutions."

National Western Life is executing the project through the agile development methodology, which Hydanus says allows flexibility in prioritizing deliverables while strictly controlling scope. "We have determined that we could 'nudge' deliverables and the budget as needed, but we have ruled out playing with the final go-live date of Jan. 3, 2012," he reports.

BPM-Based "Rip-and-Gut"

AEGIS Insurance Services (more than \$1 billion in annual written premium), an East Rutherford, N.J.-based specialty P&C insurer that writes specialty lines business for energy industry clients, had gone through several attempts to replace its underwriting system, simplify its IT organization and deliver new product speed-to-market enhancements, relates Stephen Smith, the carrier's information officer responsible for underwriting and claims. Then the company's IT organization spent about half of 2010 studying system options and found itself favoring Duck Creek (Bolivar, Mo.) and Camilion (Toronto), according to Smith.

"We didn't look at the very large systems — because we're not admitted and don't follow ISO and ACORD standards, a lot of the big packages were overkill," he explains. "We looked for something we could wholly customize to our business model."

Toward the end of its investigation, AEGIS was leaning toward Camilion but hit a stumbling block. "When it came down to it, we were doing too much customization [for our unique needs]," Smith relates. "Configurable systems are still standard packages across multiple customers, so whenever there's an upgrade there are unknowns that could impact your organization."

AEGIS thought of its systems challenges as fundamentally a problem of process change and automation, and as such began to look at business process management solutions, Smith says, noting that the carrier explored Cambridge, Mass.-based Pegasystems' offering and saw its potential for simplifying the AEGIS IT organization. "We took a look at the tools stack and saw that we could do much

more than simply modernize underwriting," he says. "We saw the potential for leveraging a single tool across the entire enterprise."

AEGIS is now about halfway through a roughly \$5 million transformation effort that began with its underwriting capabilities, according to Smith. The carrier is up and running with its directors and officers (D&O) business following an eight-month project and anticipates going live with the rest of its underwriting capabilities before the end of 2012, he reports.

Smith stresses that the initiative is not a case of using BPM to put an attractive front end on legacy capabilities. "This is a pure rip-and-gut; we are doing everything in the Pega system — quoting, rating, binding, endorsements — soup to nuts," explains Smith. "We're also fully integrated with downstream systems, including our [Hopkinton, Mass.-based EMC] Documentum content management, our [Microsoft] Great Plains billing system and Siebel CRM [from Oracle]."

Extreme Legacy Extension

When Agoura Hills, Calif.-based Pacific Compensation Insurance Co. was founded in 2002, the company purchased an IBM AS/400-based policy system delivered via a hosted solution in support of what PacificComp CIO Joe Cardenas calls a "zero footprint" approach to IT functionality. "Nowadays this kind of approach is usually called 'cloud,' but our term, zero footprint, is more descriptive because it includes different formats, such as software-as-a-service [SaaS] and platform-as-a-service," Cardenas explains.

The original system was enough to get PacificComp up and running, but the longer-term plan was to phase it out in favor of a superior system that could also be delivered on a zero-footprint basis, Cardenas relates. "It was just an old system, difficult to operate and clumsy," he comments. "The functionality wasn't bad, but in order to drive larger volumes we needed to replace it from a usability standpoint."

PacificComp, a subsidiary of New York-based Alleghany Corp. (\$985.4 million in 2010 revenue), decided to implement new front-end underwriting capabilities and began working with FirstBest Systems (Bedford, Mass.). "Instead of treating FirstBest as a regular front end, we saw it as replacing more than 90 percent of our legacy system," Cardenas says. "So instead of simply putting this component here, we're going to strip the guts out of the existing system."

The carrier's legacy system remains in place largely because it's not worth the cost of taking it out, though it is little more than a shell, according to Cardenas. "Starting in 2004 we started taking little bits of functionality out of the legacy system, and in 2009 we started to get aggressive once we saw that we could get all the users off the system," he recalls. "We shut off all access to the system in August 2010, and it was FirstBest that made it possible." ■



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