Breathing new life into platform rationalization, compliance demands and supporting global expansion

Technology trends in the life insurance industry: Part 2

High performance. Delivered.

In Brief

Trends that enable life insurers to become high performers:

• Standardizing and simplifying the IT infrastructure for more effective service at lower cost

• Improving data capture and reporting to respond to compliance demands

• Creating a more agile organization

• Supporting global expansion and a multi-country operating model

• Dealing with changing value propositions and the threat from aggregators and direct insurers

• Meeting the challenges: A factory environment for product development and support

For Part 1 of the 'Technology trends in the life insurance industry' series entitled 'Breathing new life into multi-channel support, analytics and customer segmentation', go to www.accenture.com/insights/life.
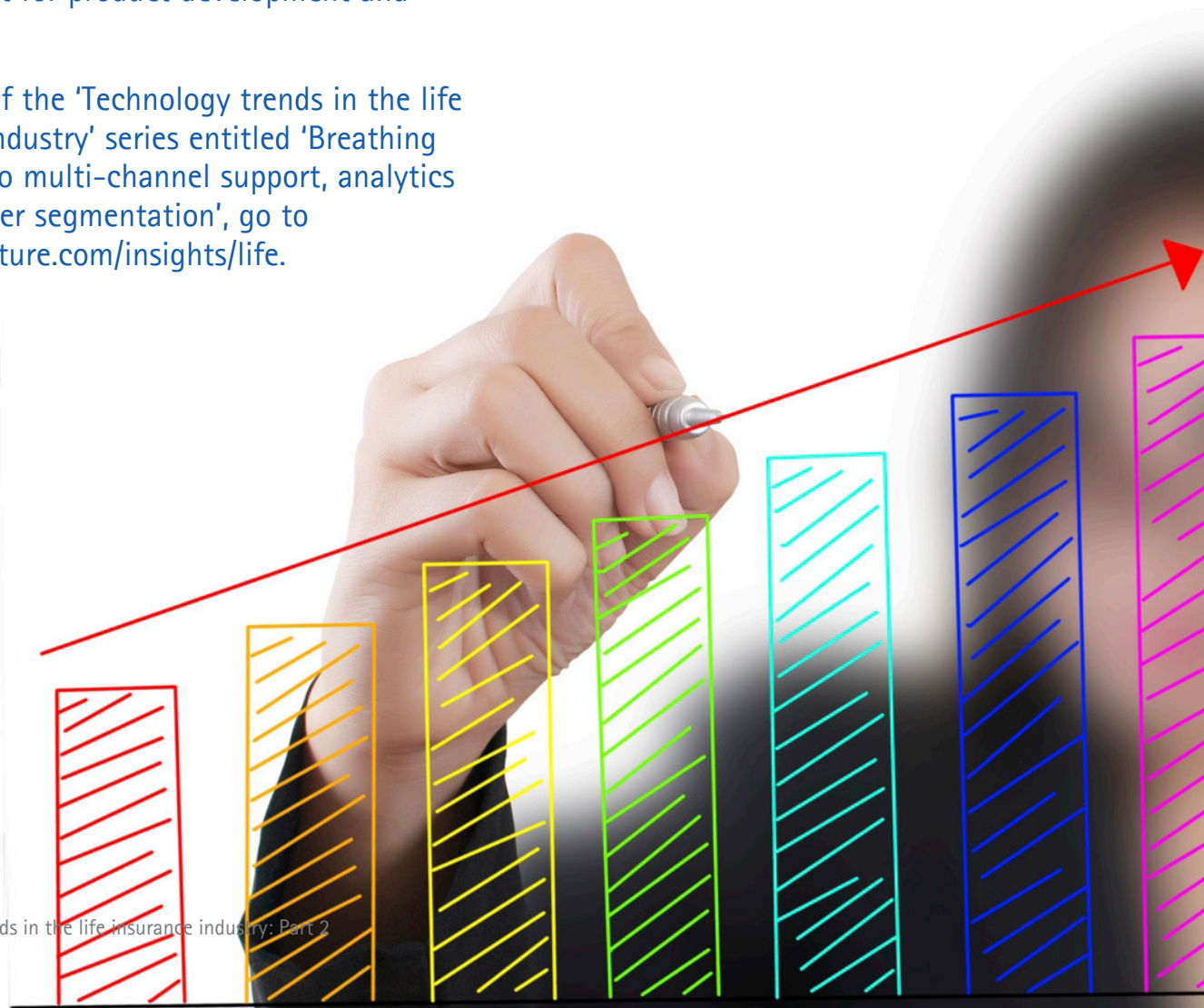
Driving growth with advanced software

Changes in the current economic climate continue to pose challenges for life insurance and annuity carriers in the quest to improve cost management practices and respond adequately to regulatory pressures. The difficulty of attaining growth and profitability in such an environment will intensify in the coming years. Contributing factors will be slow GDP growth, intensifying competition and an increase in regulation. To reduce IT spending and meet compliance requirements, the right software platform and technology infrastructure is needed.

In part 2 of Accenture's 'Technology trends in the life insurance industry' series we discuss a number of software trends that are amongst the most important in the life insurance industry. Insurers who take note will be in a better position to address growth and profitability concerns.

Standardizing and simplifying the IT infrastructure for more effective service at lower cost

Most CIOs in the insurance industry are seeking to consolidate and rationalize systems onto a single platform, or at least to move significant percentages of systems onto fewer platforms. The existing complexity of the IT environment is, in most cases, due to several factors. One is that when many of these systems were created, companies did not feel the cost pressures they do today. As financial pressures bear down and companies become more global in nature, the cost and performance impact of disparate systems is becoming burdensome.

A second factor in legacy system complexity comes from the fact that many companies have grown in recent years through mergers and acquisitions. This kind of inorganic growth has resulted in complex, often incompatible legacy systems from different companies being patched together in ways that are risky, redundant and expensive to maintain.

Consolidation is needed to achieve a simplified and standardized product functionality. This will also aid the customer experience—insurers simply do not want to have one set of protocols by which to enroll or service customers for one product or in one region, and then another set for others.

From an IT perspective alone, the business case for replacing this patchwork of systems can seem uncertain. Most companies have significantly reduced the cost to serve for those legacy systems, so the replacement cost can seem daunting given today's budget pressures and can obscure the ultimate value. Significant skills are also required to perform a widespread consolidation and this too can overwhelm IT planning.

The challenge that aging systems present from a cost and service perspective explains the rapidly growing use of application and infrastructure outsourcing. If companies themselves are unable to drive their IT environment toward a more consolidated situation, then outsourcing can generate many of those benefits faster in the short term, while also enabling companies to stay abreast of timely updates and new technologies. With variable costing, companies get to pay only for the functionality and capacity they actually use.
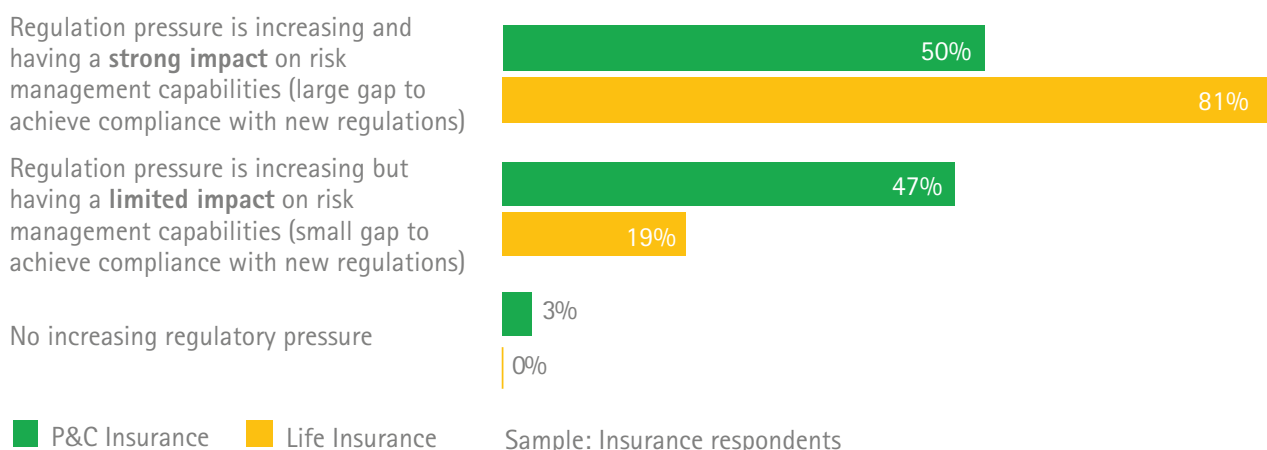
Migration is another critical point. Insurers must attend to the risks of moving to new technology platforms—decommissioning old systems while maintaining data integrity through the migration. They need software that cleanses data and re-defines data fields to enable effective access to and analysis of the data in the new system.

To get a true picture of costs and benefits, the business case from an infrastructure and back-office point of view must be balanced with the front-office perspective. Companies must be able to serve customers effectively and efficiently if they are to achieve profitable growth. A software solution can address this need in the short term, even as companies consider a longer-term consolidation approach.

Rigid and costly legacy systems form a major barrier that prevents insurers from moving to more agile and responsive systems and business processes. It's a view shared by industry analysts who, in an

Figure 1. Regulation has a high degree of impact on risk management capabilities
How would you qualify the regulatory environment and how does it impact your risk management capabilities?

Regulation pressure is increasing and having a **strong impact** on risk management capabilities (large gap to achieve compliance with new regulations)

- 50%
- 81%

Regulation pressure is increasing but having a **limited impact** on risk management capabilities (small gap to achieve compliance with new regulations)

- 47%
- 19%

No increasing regulatory pressure

- 3%
- 0%

■ P&C Insurance ■ Life Insurance   Sample: Insurance respondents

Source: Accenture Global Risk Management Study 2011

Accenture survey, overwhelmingly (91 percent) rated technology as either critical or important to the industry, with more than half suggesting that current technology performance was 'poor' and 'in need of major improvement'[1].

Improving data capture and reporting to respond to compliance demands

Data is at the heart of basic service, product innovation and competitive advantage, and insurers are as aware of this today as ever. This centrality is often reflected in their very systems and data architectures. In a kind of "hub and spoke" model, the core policy administration system works at the center, with all other systems relying on data stored there. Alternatively, companies may have a data warehouse occupying that central part of the architecture. Either way,

the core policy administration system is typically the driver for the bulk of the data. Along with the CRM database, it feeds most of the information needed by other systems—containing transactional, customer, reporting and compliance information, as well as annual processing, tax, regulatory and other information.

Each year, whether in North America, Europe or Asia, new regulatory and compliance requirements are introduced relating to how that information is to be gathered, used, stored and managed. In the wake of the financial crisis, scrutiny over the movement of money grows even as companies increasingly conduct business across borders. As a result, compliance and the risks of noncompliance, will become an ever more important focus of insurers.

Accenture's recent 2011 Global Risk Management Study[2] identified a group of companies deemed to be "Risk Masters"—companies whose practices and capabilities set them apart from their peers. Based on the analysis of these companies, managing regulatory compliance is a key risk management capability (see Figure 1). Companies that perform well in this respect will deliver better business performance. Risk Masters are also better at developing relationships with regulatory agencies.

The right software platform or managed-service approach to operating the underlying software can remove some of this complexity and headache for an insurer. Rather than use a compliance approach that is mostly catching up with transactions to drive a reporting requirement, companies can rely on software that configures data

[1] Accenture Global Equity Analyst Survey June 2008

[2] Accenture Global Risk Management Study 2011

within the system to be inherently compliant with different countries' legal requirements.

Creating a more agile organization

Insurers need business and software solutions that are both robust and flexible. They need to be readily configurable to create a more agile business. Several features of an insurance software solution are especially important in creating such agility. First, the software must support end-to-end functionality in an integrated manner. Second, the entire solution must be delivered in a componentized way to facilitate maintenance, enhancement and replacement of the system over time.

One of the unintended consequences of recent industry trends toward seeking best-of-breed products for individual parts of a company's overall solution is the fact that they are often then forced to compromise on individual components to make everything work together. Upgrading any particular component was also difficult because the end-to-end environment was held together in a very tentative, even fragile manner that could break if too many changes were introduced in a single component.

A final point related to providing comprehensive and yet tailored functionality relates to having sufficient experience in specific lines of business and countries where the software replacement will take place. A software provider must be experienced in the many sophisticated "country layer" specificities and capable of transforming that experience into pre-configured layers tailored to particular countries' requirements.

Supporting global expansion and a multi-country operating model

The heritage of many insurers is one heavily influenced by geographic boundaries. In truth, however, the vast majority of underlying requirements that insurance companies need to observe are not unique to a particular market. This means that general system feature requirements are becoming increasingly global as different regions catch up with each other in terms of technical capabilities. For example, a decade or so ago, the Asia-Pacific region was more advanced in terms of mobile devices and usage than other areas, but that gap has largely been closed. To take another example, flexible configurability of products that addressed complexity issues was most relevant in the U.S. market, but now such flexibility is relevant and important everywhere. Even product types are starting to move across boundaries. This means that underlying systems are not as market specific as they once were. Insurers that apply consistency across their organizations will be far more efficient.

At the same time, global consistency needs to be balanced by local relevance. Companies certainly do not want to homogenize their product catalog—supporting only products that can be sold 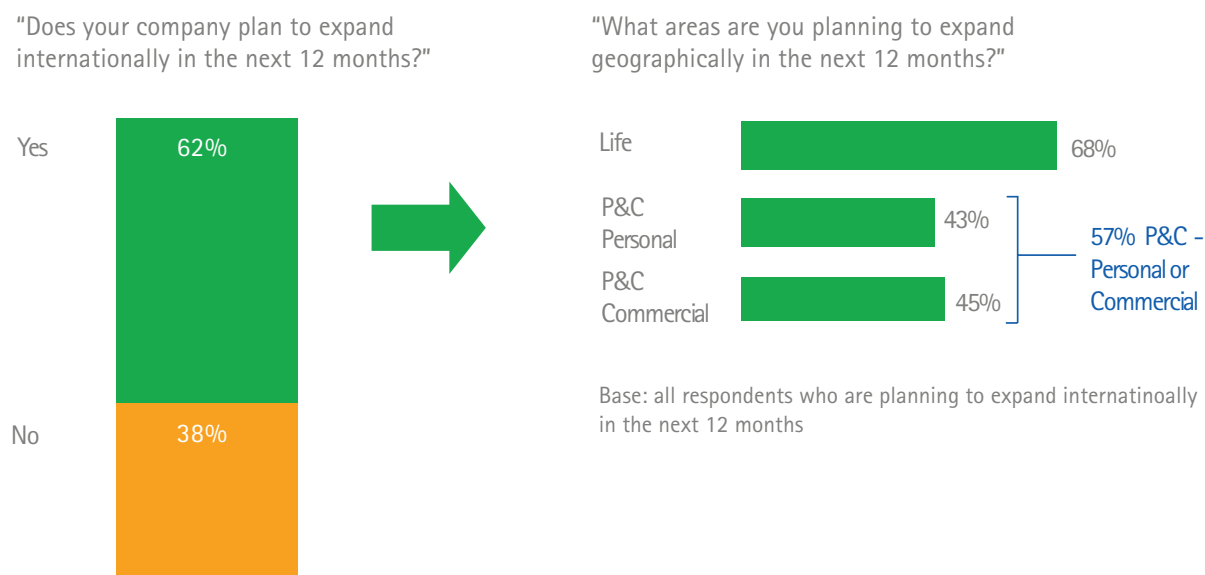as-is anywhere. The system ultimately still needs to look like a local market system. If you're deploying in France, the end user wants to see a French system in French with French products. If you're deploying in Spain, it needs to be a Spanish system. Insurers need to provide similar capabilities everywhere but also be able to give them a local look and feel.

Not only does the system need to be configured to meet local requirements, it needs to be readily integrated with legacy systems which contain rich functionality that a company does not wish to give up in return for a cheaper, "vanilla" solution.

More than three-quarters of insurers surveyed in a global Accenture study stated that international expansion is a critical or important driver of economic value[3]. According to the survey respondents, IT infrastructure and services, finance and human resources are functions that should be most leveraged at a large-scale regional or potentially global level. Many insurers have already recognized the need to achieve a modest level of cost-optimization within their cross-border operating models. In an Accenture Survey, 62 percent of insurers questioned planned to expand internationally in the next 12 months (see Figure 2). Delivering rapid product development (boosting revenue growth) and managing the public image and overall positioning of the enterprise consistently around the world will be difficult. However, if achieved, a group-wide culture of innovation could be self-reinforcing and therefore even more valuable.

[3] Accenture report – Internationalization: a path to high performance for insurers in uncertain times, 2009

"Does your company plan to expand internationally in the next 12 months?"

"What areas are you planning to expand geographically in the next 12 months?"

Yes — 62%

No — 38%

Life — 68%

P&C Personal — 43%

P&C Commercial — 45%

57% P&C – Personal or Commercial

Base: all respondents who are planning to expand internatinoally in the next 12 months

Source: Accenture Multi-Country Operating Model Survey 2009

Dealing with changing value propositions and the threat from aggregators and direct insurers

In truth, insurance agents only represent their agency and its business goals. Of course success will not last long if the agent's business goals conflict with those of the insurer or with customers' interests. However, the fact remains that longstanding attitudes among insurers leave them vulnerable to other kinds of models such as fee-only planning, "life coaches" or aggregator models where companies act as intermediaries and offer customers a selection of insurance products at the lowest rate possible.

Distribution models are about to undergo a dramatic change. Life insurers prefer to use their own branded distribution system—captive agents—and a wholesale capability that makes use of independents. But on the horizon are more effective linkages with aggregators, something already happening in the Property and Casualty environment in places like the United States and the United Kingdom. E-aggregators like Google Advisor or other online companies offer guidance to people at the moment of decision-making to effectively identify what the different product options are and present them as options to the end consumer. These are very different revenue models that involve charging for advice, not just for products. If one can maneuver through the regulatory mine field, this is a trend likely to change the face of the life insurance industry.

Using the "life coach" model changes almost everything—the value proposition, the customer experience to be delivered, the type of overall relationship and the manner in which

the value of that relationship is to be measured. From a technology perspective, it means insurers getting out of their comfort zone begin to have a voice in the social media world. They need to be seen as influencing perceptions and offering guidance, and they also need to be seen as companies that listen – they know how to send out information, but also how to take it in as well.

In an Accenture survey, more than 40 percent of customers who planned to buy insurance "in the next 12 months" said that they would choose to do so online[4]. Direct insurers, brokers, and other distributors have developed increasingly sophisticated websites for quote and purchase, either for Internet-only brands, or for multi-channel offerings.

This is an opportunity, but insurers need to be clear that it is a profound threat as well, especially

[4] Accenture: Changing Channels–Multichannel Insurance Distribution Consumer Survey, 2010

if they do not move quickly. Just as telecom companies are moving into the banking world through mobile payments, other companies are poised to move into the insurance environment, unhampered by legacy systems and legacy mindsets. They can operate with a more nimble business model to meet the needs, intentions and expectations of customers and deliver a great overall experience. If this happens without the involvement of insurers, insurers will have lost the ability to influence the decision-making, process and specifics of their products.

Meeting the challenges: A factory environment for product development and support

An advanced software capability can help insurers meet the challenges and opportunities just discussed. An industrialized, "factory" approach to product development helps enable rapid product introductions and changes, utilizing leading third-party rules, product rules and form production engines.

Advanced software can provide insurers with a platform to externalize the business logic that currently resides in legacy systems, making it easier for business users who define products to manage the business logic associated with those products. By extracting and centralizing business rules, insurers can be better positioned to achieve advanced capabilities in underwriting, product development and policy processing.

The capabilities of a factory environment include:

• **Design and configuration environment:** This enables business users to configure reusable core product components and template products, create commercial insurance products that inherit from these reusable template products, and link core product components to product business rules and content stored in leading third-party engines.

• **Product development productivity and quality tools:** These assist business users in managing the product development life cycle with project management functionality that enables product managers to organize and track product changes into logical "projects." They also provide business impact modeling functionality that allows product developers to simulate the impact of a product change before releasing it to the market, to test for the desired business outcome.

• **Deployment management utility:** This enables business users to stage key product changes for rollout and allows IT users to manage the deployment of these changes to test production environments.

• **Run-time environment:** This exposes standardized execution services for key underwriting and policy administration functions, and provides seamless run-time integration to best-of-breed solutions for product rules, underwriting and forms production.

Conclusion: The quest for high performance in the insurance industry

Accenture's research has identified these trends as being key to attaining profitability in the long run. A view to consolidating and rationalizing systems onto a single platform will help insurers to decrease IT costs. This approach will also simplify and standardize how a company builds product functionality and customer experience. Additionally, an industrialized, "factory" approach to product development can help enable rapid product introductions and changes. The right software solution can meet insurers' needs in both the short term and the long term as they look towards consolidation.

An improvement in the value of insurers' data will better enable them to respond to compliance demands. The right software can make efficient use of the data and so remove some of the complexity around how information is gathered, used, stored and managed.

A highly configured and componentized solution will go a long way to creating a more agile organization. This, coupled with efficient consistency across multi-country operating models, will put insurers on the right path to high performance.

More effective linkages with aggregators as well as dealing with changing value propositions are needed to deliver a good customer experience. Insurers that respond quickly to the challenge that aggregators present will be in a much more secure position to compete with new entries into the insurance industry. Today's advanced software environments can contribute significantly to these capabilities, and so enable life insurance and annuity carriers to achieve high performance.

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