The Case for Consolidation

Why Life and Annuity Insurers Must Simplify IT

ORACLE

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"Simplification is a critical piece of the puzzle that insurers will have to solve and solve quickly in the modern digital era. Without doing this, insurers and underwriters will not be agile enough to introduce new innovative products and customer engagement models in the emerging era of the digital and shared economy."

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Executive Overview

Life and annuity insurers are in transition. Many have scaled up and positioned their enterprise for greater earning potential, and now, they must assess the new conditions. Namely, there's more of everything: more markets, more customers, more products. There's one critical area slowing down the whole enterprise: more IT systems.

What can insurers do about an IT environment that has become so complex, that the entire organization feels swamped in a sinkhole? Simplify. More specifically, consolidate disparate legacy systems, streamline workflows and get the most out of every step.

In this white paper, we explore how IT complexity evolves and look at the common problems many life and annuity insurers are struggling with. By analyzing the pain points in different areas as well as the potential benefits of consolidation, insurance executives can clearly see the urgency to simplify. We'll also illustrate how Oracle's solution solves the next-generation demands for insurers, both big and small.

M&A Spike Leads to IT Complexity

A record-breaking year of M&A deals in 2015 set the stage for an onslaught of continuing growth: China and Japan-based companies investing in the U.S., large global insurers investing in Asia, insurtech acquisitions and investments, and much more. Life and annuity insurers continue grow and diversify through M&A.

Expanding into uncharted territory—whatever kind of territory that may be—inevitably results in complex IT environments. For example, an insurer that once solely offered individual policies now offers group. In another common scenario, an insurer that acquired a line of business from abroad is navigating through foreign processes. A midsize life and annuity insurer could easily have 20, even 30 different policy administration systems handling group and individual lines. Some of the largest insurers have more than 100 systems.

Dan Markovitz, an expert and consultant on lean principles, describes how corporate processes evolve into complex webs of inefficiency:

> Look at the way cities grow. If you look at the underground network and see where the power conduits, sewer lines, and electric lines run, you'll see that they didn't follow any kind of logical master plan. When you try to build a subway line, it's like an obstacle course. You've got to go high, go low.[1]

Most insurers have an IT obstacle course. The more systems, the more integration points and workarounds employees have to contend with.

Here's a realistic view of the IT environment at a life and annuity provider:
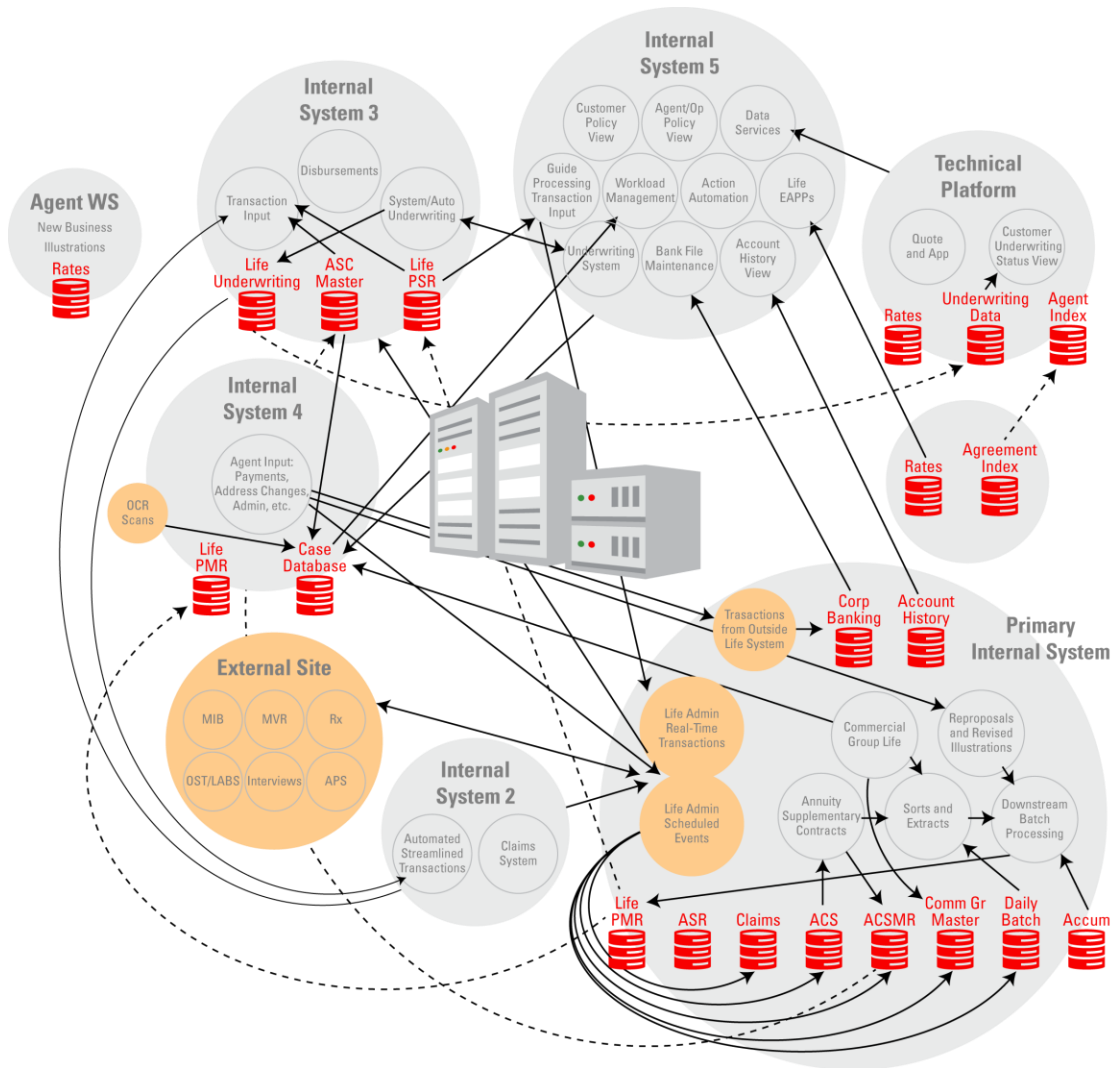
In insurance, seemingly simple tasks such as renewing a policy or looking up a quote can easily require many time-consuming steps, navigating in and out of multiple policy administration systems. Ultimately, these inefficiencies take a toll on the entire enterprise.

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1 Dan Markovitz, Interview by Millie Lapidario, 16 June 2017

How Multiple Policy Administration Systems Create a Sinkhole

Complexity in any enterprise makes it "extraordinarily difficult" to get things done, Markovitz says. "Information doesn't flow. Customers don't flow. There are clunky handoffs, dropped balls, all kinds of rework."[2]

In insurance, a complex IT environment has a compounding effect that impacts every part of the organization starting with the IT department. Those inefficiencies put pressure on internal operations and the budget. Ultimately, all that back-end rigmarole weakens the company's credibility with its customers as well as its overall business strategy.

The Weight on IT

The CIO and IT department are the first line of defense. They're responsible for dealing with IT vendors, maintaining systems, and integrating additional policy administration systems with existing legacy systems. Even with SOA-based systems and middleware, integration is becoming more difficult. Celent's regular surveys of Asia Pacific-based life insurers show declining figures of respondents who find it easy to integrate their policy administration system with internal systems and databases.[3]

Oftentimes, IT employees have no choice but to accept poor integration. They find a way to pass data from one legacy system to another, which typically requires manual processes. As insurers take on more policy administration systems, those tedious workarounds multiply, thus adding more tasks for IT and the rest of the organization.

The Weight on Internal Operations

Employees handling the back-office work can easily get swamped navigating multiple policy administration systems. Internal workflows for processes like rating and underwriting are often complicated to begin with. To make matters worse, employees have to execute the same steps on each system.

Bottlenecks in IT are all too common in life and annuity. Because legacy systems typically require users to alter coding to make even minor changes in rules or processes, the entire organization is severely dependent on the IT department. Business users are forced to pass certain tasks to IT, then wait before they can move forward.

These redundant efforts and delays are especially stressful for staffers during compliance audits. Because data is spread out and cumbersome to access, employees must manually dig through multiple databases to comply.

The Weight on the Budget

Maintenance fees and license fees increase exponentially with multiple systems, especially over time. Unlike P&C, life and annuity policies can stretch out for several decades. Insurers typically manage their closed blocks in multiple legacy systems even after modernizing IT for new business. While closed blocks are slowly diminishing, their fixed costs are relentlessly rising.

Some policy administration systems require a different operating system. In those cases, the costs are even higher. But the drain on funds doesn't stop there. Consider the indirect costs that crop up from IT complexity. Maintaining interoperability requires more technical employees, which increases labor costs. Errors resulting from manual processes can lead to hefty compliance penalties. Additionally, troubleshooting and training staffers to use the various systems contribute to the growing mountain of IT debt. Any insurer's budget cannot sustain this predicament much longer.

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2 Dan Markovitz, Interview by Millie Lapidario, 16 June 2017

3 KyongSun Kong, "Life Insurers' Perception of Policy Administration Systems: 2016 APAC Edition," Celent, 23 June 2016, http://bit.ly/2svV7UW

The Weight on Customers

Inefficient IT also burdens existing policyholders with poor customer service or inconsistent experiences. Policyholders may become frustrated when they can't get a quick answer to a simple question over the phone. They don't realize that on the other end, the customer service agent is struggling with inconsistent information and data formats. The agent is likely digging through multiple repositories for answers.

Customers with multiple policies are the most likely to notice the missing connectivity between their policies. For example, an address change on one policy may not automatically take effect on another policy. The customer may discover this discrepancy later, and then call the insurer a second time. More than likely, the added obligation will annoy customers.

The poor customer experience will inevitably persist. With data spread out among multiple systems, the insurer can't glean insights from data analytics. Because of that gap, executives may not be aware of what areas need improvement. The most they can hope for is manual reports created by staffers plucking data from each system. (This would cost more in labor and deepen the financial sinkhole.)

The Weight on Business Strategy

The inefficiencies that start with IT and spread to the back office ultimately damage the insurer's business strategy. Competing against younger, more agile insurtechs becomes nearly impossible with a patchwork of old policy administration systems. Too often, insurance executives are focused on keeping the company afloat rather than looking ahead.

Product development, which is critical to business strategy, suffers from complex IT environments. Developing innovative products is equally as important as launching them quickly. Yet an insurer juggling many administration systems may need 12 months to develop a single product.

A Smart Start to Simplifying IT

There comes a point when IT complexity becomes glaringly unsustainable and executive management decides to rebuild from the ground up. They assess their processes and reimagine a streamlined way of doing business. Consolidating policy administration systems is fundamental to that transformation.

"Simplification is a critical piece of the puzzle that insurers will have to solve and solve quickly in the modern digital era," according to Arunashish Majumdar, Head of Innovation, Insurance at Tata Consultancy Services. "Without doing this, insurers and underwriters will not be agile enough to introduce new innovative products and customer engagement models in the emerging era of the digital and shared economy."[4]

More life insurers have begun to explore how to downsize their IT portfolio. A common approach among life and annuity insurers is to start by analyzing its book of business, primarily by size. Capgemini offers this example in a

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4 Arunashish Majumdar, "Insurance Transformation Starts with Simplification," *Insurance Innovation Reporter*, 2 March 2015, http://bit.ly/2rIgOya

"Global Trends in Life Insurance" report: a large life insurance group may consolidate to two systems—one each for its individual and group policies—while a medium-sized insurer may opt for a single policy administration system.[5]

Insurance companies have also approached platform consolidation by region or by new business. The latter approach phases out legacy systems by directing all new and existing policies to a consolidated platform, while keeping legacy systems for closed blocks.[6] Insurers typically try this method to avoid a significant upfront investment. The phase-out approach, however, can drain life insurers for several decades. They'll continue paying maintenance fees for the life of the policies.

Majumdar works with insurers on how to innovate and has also helped insurers through complete digital and IT transformations. He says that while moving to a single administration system is important, there is no one-size-fits-all approach to consolidation that works for every insurer. Insurers need to articulate their business objectives throughout the transformation, he adds.

"It's not just about putting a new engine in there," Majumdar says. He encourages insurers to consider how a system fits with their broader digital strategy: "How is it going to improve customer experience? How is it going to improve operational efficiency? How is it going to drive down costs of their operations?" He stresses the importance of having a holistic perspective of the enterprise.[7]

Starting with a comprehensive view will help insurance executives focus on their top priorities without getting blocked by logistics. For example, converting a group contract into an individual contract can be very challenging—nearly impossible—with multiple systems. CIOs are likely to avoid such an undertaking if they don't have the technology to support it. With a holistic perspective, they're likely to stay focused on improving customer experience and reinforcing that priority throughout the organization. That laser focus will drive the organizational momentum to simplify IT systems, starting with combining group and individual into one platform.

The Ultimate IT Environment for Life and Annuity: Group and Individual in One Powerful System

As policy administration systems have become more technologically advanced, the hard line between group and individual lines is not set in stone. Consolidating entirely into one platform is now possible with the right solution—even for a large, global insurance company offering all lines of business.

The divide between group and individual lines has traditionally limited the possibilities of tailoring policies to the customer's needs. By using one policy administration system, insurers can abandon those traditional norms. They can finally create policies designed around the customer rather than their IT system. Insurers can also streamline by sharing processes between lines of business.

Some software vendors may claim to offer a consolidated policy administration solution, however, they may lack the capabilities to manage both individual and group. Reusability across product lines is absolutely crucial to streamlining processes. Oracle's solution is fully equipped to manage any and all lines of business for any size insurer on a single platform.

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5 Capgemini, "Global Trends in Life Insurance: Policy Administration," 2011, http://bit.ly/2tUpUbJ

6 http://bit.ly/2tUpUbJ

7 Arunashish Majumdar, Interview by Millie Lapidario, 20 June 2017

Here's a real-life example of a large US insurer that capitalized on Oracle's solution:

The Tier 1 carrier, which offers insurance policies in all lines of business, sought to attract affluent executives with specially designed group universal life and variable universal life. Typically, insurers cater to this market through individual policies, which enables the policyholder to control investment portions. Universal life and variable universal life are not common in group policies. However in this case, the carrier intended to offer these products through group coverage in order to take advantage of the payroll deduction.

The US carrier chose Oracle Insurance Policy Administration (OIPA) to consolidate all universal life and variable universal life policies, both group and individual lines. Now, their policyholders have the best of both worlds: they can fund their policies through employee contributions and closely manage their investment options. Meanwhile the carrier enjoys the same functionalities of group policies including census information management, enrollment, and billing.

The Benefits of Platform Consolidation

Insurers that have consolidated policy administration systems in some form experience a dramatic boost in business agility. Here is an overview of the advantages of simplifying IT into one platform.

Relieve the Burden on IT

Reducing the number of technologies translates into fewer integration points. For CIOs and IT staffers, that's a huge relief. They can eliminate the tedious workarounds and redundant tasks like coding and testing. The IT department no longer has to train employees on multiple policy administration systems. Instead, they can refine their expertise on the chosen system. From a logistical perspective, the company frees up a tremendous amount of system space because data is now consolidated in a central repository.

CIOs also benefit from platform consolidation outside their immediate technical environment. They no longer have to manage complex arrangements with multiple vendors. From an HR perspective, CIOs no longer have to worry if an employee with specialized legacy system skills leaves the company.

Reduce Costs

Downsizing an IT portfolio to a single policy administration system radically brings down expenses in multiple ways. The most obvious and immediate change is eliminating maintenance fees for many legacy systems. IT labor costs decline significantly because insurers no longer need as many people to support multiple systems.

Depending on the platform insurers use to consolidate, other parts of the enterprise may also benefit. For example, an insurer with more than 85 million customers worldwide used Oracle's solution to consolidate. After improving its online self-service options to customers, the company received far fewer customer calls. As a result, the insurer scaled back call center staffing and further reduced labor costs.

Innovate Insurance Products

Life and annuity insurers are well aware that they need to create innovative products for key demographic groups such as millennials or young couples with children. Like the Tier 1 carrier that created a new group product for affluent executives, product development teams need to think outside traditional norms. A single platform allows teams to combine features of existing products rather than starting from scratch. Product development teams now have a systematic process of experimenting with various policy features from both group and individual.

Expedite Time to Market

Insurers that have consolidated IT systems typically experience a steep uptick in product development cycles. On average, insurers that use Oracle's solution cut their product development timeframe by one-third. However, some insurers that implemented Oracle Insurance Policy Administration have slashed their time to market by up to 60 percent. One large US insurer began rolling out a new product every quarter after implementation.

Upgrade Customer Experience

Both self-service and customer service undergo major improvements from consolidating systems. The single platform gives customers a consistent, digital experience for all their policies. From an internal perspective, addressing customer inquiries becomes significantly easier through a consolidated policy administration system. Customer service agents no longer have to dig through multiple databases to find information. With one system, agents can easily find information about the policyholder's coverage from both group and individual policies in a single view. Not only are they able to help the customer more quickly, they're also better informed. Consequently, they're able to boost the quality of support.

Gain Business Intelligence through Data Analytics

Scattered data in inconsistent formats is no longer a problem under a consolidated policy administration system. Data sits in a central repository, enabling insurers to capitalize on data analytics. Insurers can gain insights about their customers, their operations, their policies, and much more. With this newfound business intelligence, the benefits are substantial. "Improving data and analytics will not only help insurers meet regulatory and customer pressures, it will also allow them to build a framework for the next stage of digital transformation," according to Ernst & Young. [8]

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8 Ernst & Young, "2017 US Life-Annuity Insurance Outlook," 2016, https://go.ey.com/2sHGdJT

Increase Productivity and Improve Collaboration

Product development requires constant communication among various departments. Actuaries, compliance officers, business analysts, and others can collaborate more effectively from a single platform. Overall, employees can accomplish more in less time using one platform. The unnecessary workarounds and redundant tasks are no longer dragging down processes.

Expand to New Regions and Markets

Insurers pursuing an aggressive growth strategy in new regions need to keep the momentum going—without IT delays. A single, advanced system with multilanguage and multicurrency features will undoubtedly help the enterprise expand quickly.

Consolidate, Simplify, and Transform with Oracle

The IT solution for leading life and annuity insurers is Oracle Insurance Policy Administration (OIPA). Oracle's rules-based system—a stark contrast from code generators and parameter-based solutions—is the ideal solution for consolidating disparate legacy systems. Users can define business rules, create products, and make adjustments without changing the base code. Because of that built-in flexibility, OIPA is uniquely equipped to handle all types of insurance products from all lines of business.

Many of the solutions on the market are narrow in scope and tend to focus on one line of business. Oracle's solution, benchmarked to support 100 million policies, solves the next-generation demands in life and annuity. In the 2017 "Magic Quadrant for Life Insurance Policy Administration Systems, North America," Gartner positioned Oracle as a leader for Oracle Insurance Policy Administration based on the system's "ability to execute" and "completeness of vision" for the third consecutive year the report was published.[9]

Consider the impact of a single platform for both group and individual product lines. Manage sales, underwriting, contracts, claims, policy processing, and every other step of the insurance process from a central place. How much time would your organization save if you could clone products to use in a new market? What opportunities would open up if product development cycles sped up? On a more granular level, how would you streamline workflows if you could take specific features of an individual product and reuse it for a group product? The potential for life and annuity insurers is immense.

More than a Decade of Successful Implementations

All too often, CIOs are concerned about the risk that comes with transitioning to a new policy administration system, especially when consolidating multiple legacy systems. They may have heard horror stories from industry peers who selected other vendors. In some accounts, the product didn't work as they thought it would or the vendor underbid the cost of implementation. Unlike other systems on the market, Oracle Insurance Policy Administration has had a 100 percent success rate on implementations. Not a single implementation has failed.

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9 Gartner, "Magic Quadrant for Life Insurance Policy Administration Systems, North America," June 2017, http://gtnr.it/2suvzo2

Strong Partnership Reduces Risk

Oracle's many partnerships with system integrators play an important role in making implementations successful. One of our partners is EquiSoft, a specialized OIPA integrator that has been integrating the product since 2004. EquiSoft recently acquired Universal Conversion Technologies (UCT), well-known in the insurance industry for migrating more than 200 systems for more than 80 insurance companies.[10] Oracle's valuable partnerships with integrators ensure that OIPA customers have an especially powerful team of experts on their side.

The Never-ending Quest to Improve Performance

Oracle's $350 million investment in core insurance applications continues to strengthen its insurance industry experience and implementation expertise. The company's development teams never stop testing, seeking input from insurers, and adding new features. A significant amount of revenues from Oracle Insurance Policy Administration is invested back into improving the solution.

More M&A Ahead

Simplifying the IT environment comes with tremendous advantages for companies in all industries. In insurance, the need to consolidate systems is especially urgent. Low interest rates, fierce competition, and strict regulations are pushing insurers to make the most of every task, every employee, every IT investment.

Insurance industry experts expect more M&A activity ahead. Moody's Investors Service projects a surge of M&A deals and share buybacks in Europe this year.[11] Deloitte expects that insurtech M&A and venture funding deals will increase over the next two to three years.[12] And Willis Towers Watson discovered that nearly half of global insurers expect to make an acquisition over the next three years, primarily to acquire digital technologies.[13]

With the upcoming surge in M&As, more insurers will inevitably face the same scenarios in this white paper. Life and annuity executives must prepare their organizations with the right technology. Insurers need a flexible, rules-based system that can handle all lines of business and products. By investing in one powerful, advanced policy administration system, insurers will be ready for change now and in the future.

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10 EquiSoft, "EquiSoft Acquires Universal Conversion Technologies," 4 January 2016, http://bit.ly/2sK9zbP

11 Moody's Investors Service, "Announcement: Moody's: M&A, share Buybacks May Soar in Europe's Insurance Sector as CFOs Look to Deploy Surplus Capital, Says Survey," 12 June 2017, http://bit.ly/2tPtHli

12 Deloitte, "2017 Insurance M&A Outlook," 2017, http://bit.ly/2necHdF

13 Willis Towers Watson, "Insurers Under Pressure to Go Digital–Willis Towers Watson Survey," 16 February 2017, http://bit.ly/2sVmRkj

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