

top issues

An annual report

Volume 7
2015

Operations

The state of P&C transformation: Going beyond increased speed to market and IT rationalization

The insurance industry in 2015



pwc

The state of P&C transformation

Going beyond increased speed to market and IT rationalization

Insurance carriers are making an unprecedented investment in transforming their policy, billing and claims systems and processes.¹ The unique convergence of aging legacy platforms, complex market dynamics, and a mature vendor landscape has made policy administration, claims, and billing transformation a top priority for insurance carriers of all size and profile.

Now that transformations are common in the industry – to the point where off-the-shelf software packages are proving to be viable – we have observed several new developments in how insurers are approaching them.

Specifically, leading carriers are no longer satisfied with simply implementing a new platform and then searching for ways to achieve benefits in the post-implementation environment. The definition of a successful transformation is no longer an on-time delivery that promises increased speed to market and IT rationalization. Current expectations of a successful transformation include incorporating it into broader strategies for 1) data analytics, 2) the customer and agent digital experience, 3) underwriting efficiency, and 4) rate optimization.

In addition, successful transformation programs now continually map program decisions to the original benefits case and have a framework to monitor benefits realization in the post-implementation environment. In short, carriers are increasingly focusing on the “transform” in core transformation, and have greater expectations of what a transformation entails.

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Benefits of a core transformation: Typical expectations

Insurers traditionally have opted for transformations for the following reasons:

- Increased speed to market
 - » Bring innovative products to the market within existing product lines (e.g., product bundling).
 - » Expand the breadth of offerings outside of core markets.
 - » Improve the ability to react to regulatory change and risk exposure shifts.
 - » A flexible policy platform allows carriers to rapidly change products to meet market demands.
 - » Business-intuitive systems enable users to move rapidly from product design to implementation.
- Improved operating efficiency
 - » Implement straight-through processing (STP) via advanced business rule definition.
 - » Reduce underwriting cycle times and referral volume, and enable automated re-underwriting.
 - » Implement agency and customer self-service portals.
 - » Reduce call center volume.
 - » Leverage third-party integrations to reduce data entry.
 - » Increase system pre-fill rules, look-ups, and defaults.
- IT rationalization & consolidation
 - » Carriers have targeted 10% to 30% reductions in maintenance budgets through license reduction, hardware/software rationalization, or service contract elimination.
 - » Identify and address vendor tool redundancy to rationalize the number of vendors
 - » Decrease FTEs required supporting the IT portfolio due to the simplification of the environment.
 - » Improve productivity by re-deploying staff to other activities that advance the business.

¹ For an in-depth look at core systems transformation, please see our recent viewpoints on claims, billing, and policy administration.

Benefits of a core transformation: New expectations

Leading carriers have realized that they should be getting more than just the benefits we list above. They are looking for transformations to do many things, including establishing the foundation of the customer and agent experience, supporting multiple distribution systems, allowing a single view of the customer, and enhancing analytics capabilities. More specifically, these added benefits include:

- **Data and analytics** – In recent years, carriers have recognized the value of building or improving an enterprise data warehouse (EDW) in parallel with traditional core transformation initiatives. This has enabled them to plan for strategic data analysis and build necessary components into core systems. Modernizing core systems often leads to more reliable data, and when this data is coupled with strategic data analytics initiatives, it facilitates improved process metrics, work queue volumes, and claims fraud detection.
- **Customer and agent experience** – Good customer and agent experiences most often occur with modern underlying core platforms, most of which now offer self-service capabilities and even have the ability to open up new customer channels. For example, a claims transformation can improve the claims reporting, servicing, and resolution process and fundamentally alter how a customer interacts with the carrier's claims processing division. Additionally, billing transformation programs also typically include self-service capabilities that can improve the overall customer experience.
- **Underwriting efficiency** – This can be a direct benefit of any core transformation simply because of the resulting modern screen flow. However, carriers can gain much more by coupling the screen flow with an operational redesign that integrates the underwriting department with the new system capabilities. (This may entail an assessment and reconfiguration of the underwriting organization.) This is of particular importance in commercial or speciality lines transformations that seek to automate repetitive manual tasks but still require experienced underwriters to fully evaluate risks.
- **Rate optimization** – With the introduction of multivariate rating models, increased use of third-party data and improved techniques to manage large amounts of data, carriers need adequate IT infrastructure and rating plans to use effectively this information to identify and take advantage of new opportunities. While core systems transformation remains a key driver of insurer IT spend, many carriers have also pursued fundamental changes to their rating algorithms, tables and systems. Given the interrelated nature of policy administration, rating, forms and risk assessment, leading carriers have recognized that it makes sense to make these changes in parallel with a policy administration systems (PAS) transformation.

P&C transformation remains a top priority for insurers, regardless of size and product mix.

Traits of successful transformations

In order to realize the many benefits an effective transformation offers, insurers are applying a faster, more methodical approach to core transformation than in the past. We have observed several repeatable characteristics that are typical of an effective implementation.

- **Collaborative business case** – Both business and IT stakeholders should collaborate on a business case and roadmap before the implementation. This sounds like common sense; however we have seen many companies start an implementation and try to address any resulting issues before they fully appreciate how this new platform could impact both the business and IT.
- **Conduct a software vendor selection** – Successful transformation programs have typically started with a vendor selection and proof-of-concept (PoC) phase. This has allowed them to look at current options in the marketplace, determine which vendors are actually selling new systems (instead of maintenance contracts on older offerings), and understand how available options fit specific business and IT models. As a carrier starts to narrow its list, it is important that it run a PoC phase in

order to determine how software vendors' platforms work "out-of-the-box" and how they align to the company's unique needs.

- **Conduct a comprehensive mobilization phase**
– Transformations that fall short often rush into execution and overlook the need to fully mobilize. Successful transformations take the time to develop a detailed project plan, outline a governance structure, gain agreement on a program scope and budget, and fully understand sourcing strategies. In addition, the mobilization phase offers an opportunity for the company and vendor to agree on key business and architectural foundational questions, as well as understand the key organizational dependencies they need to navigate. At the end of this phase, company stakeholders should clearly understand the scope, be prepared to refine requirements and estimates, be able to plan resourcing requirements, and sequence the overall implementation plan.
- **Involve the business throughout the entire project**
– The business – not IT – leads some of the most successful transformations; in fact, IT's ideal role is to enable and support the transformation. Accordingly, it is imperative that business stakeholders prioritize the solution for the company by driving benefits, process changes, leading practices, and requirements. This often means that organizations have to backfill their business resources so they can properly focus on the program. The investment will pay sustainable benefits by promoting consistent requirements and embedding effective change management within the organization as the solution is being built.
- **Utilize an Agile or iterative implementation methodology** – Leading carriers are consistently moving to a more flexible agile methodology to improve the likelihood of success, and Agile methodology is particularly effective in packaged core transformation solutions. We advocate a "documented" Agile process that breaks down the overall build into segments or "sprints." Related deliverables include documented user stories, process flows, source code management, detailed technical designs, documented test cases, and training. This makes the project traceable throughout its lifecycle and enables stakeholders to clearly track progress.

Insurers are extending their core platforms to develop the foundation for digital transformation and analytics.

Implications

- The definition of a successful transformation is no longer an on-time delivery that promises increased speed to market and IT rationalization. Current expectations of a successful transformation include incorporating it into broader strategies for 1) data analytics, 2) the customer and agent digital experience, 3) underwriting efficiency, and 4) rate optimization.
- The most successful core transformation programs have adopted more flexible and agile delivery approaches that facilitate a cross-functional environment, and – perhaps more importantly – also have employed a continuous benefits monitoring framework. This requires program leadership to assess how implementation decisions may impact the overall benefits case and thus maintain a constant focus on the importance of tangible and transformative business value.

The state of P&C transformation

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