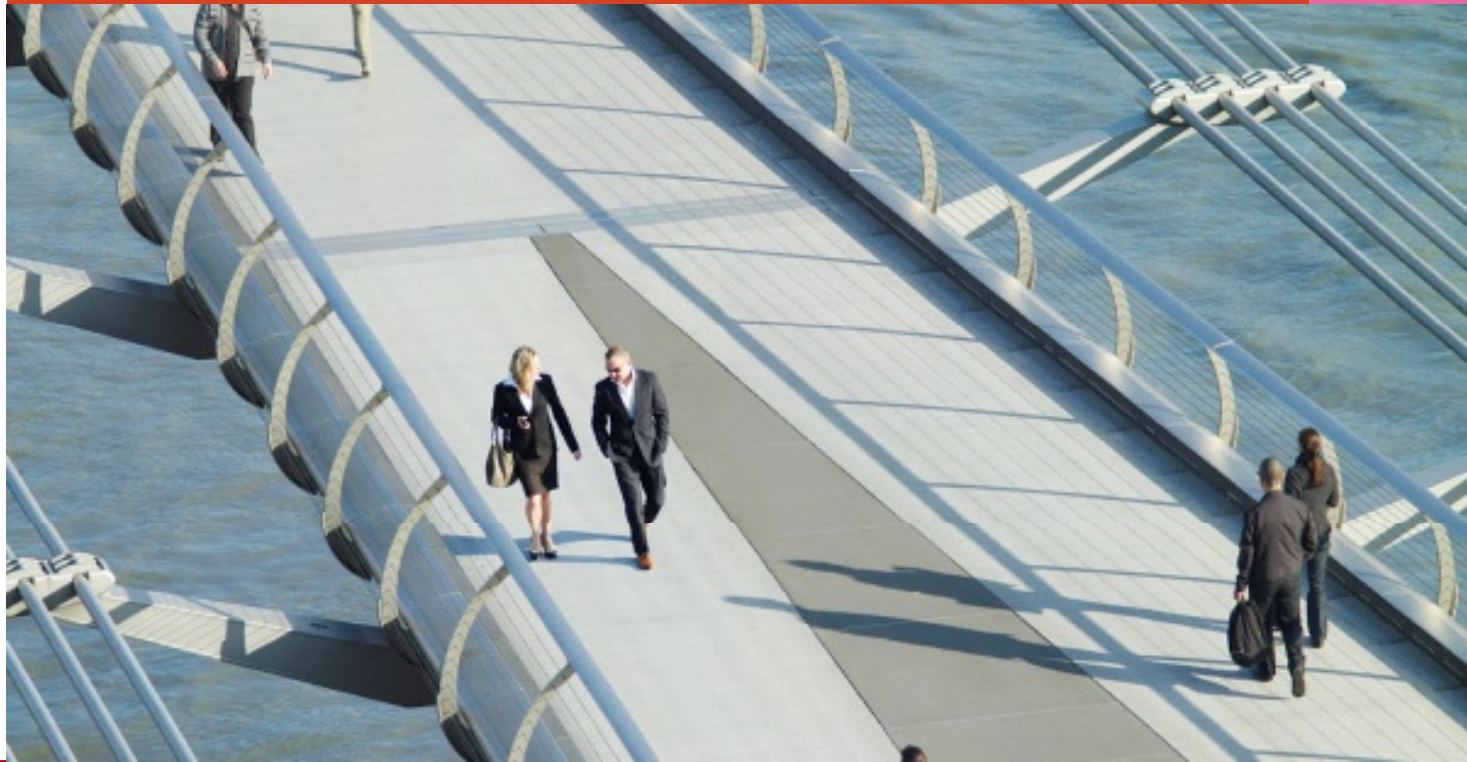


A publication of PwC's Financial Services Institute (FSI)

Fire, Ready, Aim... Don't Miss the Point of a Policy Administration Transformation



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Section 1

Point of view

Point of view

The convergence of complex market demands, antiquated legacy platforms, and an increasingly mature vendor landscape has created an environment where carriers view policy administration system (PAS) transformation as a necessary and attainable initiative.

In today's evolving industry landscape, carriers require a modern foundational system that enables improved market responsiveness and operating leverage.

An increasingly mature vendor landscape enables carriers to embark on the PAS transformation journey with less risk than they had to endure five years ago, thus enabling them to build a sound and realistic business case for transformation.

Complex market demands

Carriers are facing demands from both customer and agent:

- Customer preferences have changed and continue to change (e.g. Generation Y and Millennials).
- Easy access to all products with the ability to quickly and easily create quotes.
- The ease of doing business for distributors.
- The ability for business and product managers to make changes without relying on IT.

Antiquated legacy platforms

Many carriers are struggling with policy administration systems that are over 30 years old:

- These aging systems impede carriers from capitalizing on growth opportunities or reacting to competitive pressures.
- These systems also require significant maintenance, thus taking away from discretionary investment and creating a “strategic squeeze” for carriers.

Mature vendor landscape

A significant market for vended solutions has emerged over the past 5-10 years, and with this emergence carriers have an alternate option to the often expensive “homegrown” solution:

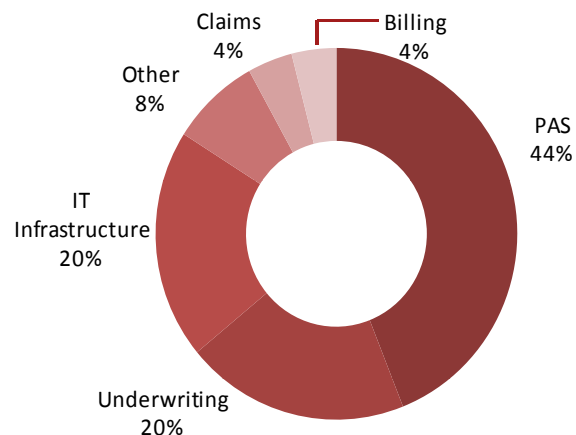
- Vendor solutions provide a viable implementation option, particularly for mid-tier carriers.
 - This increasingly mature vendor landscape is focused on modern architecture with feature-rich solution options.
-

Point of view

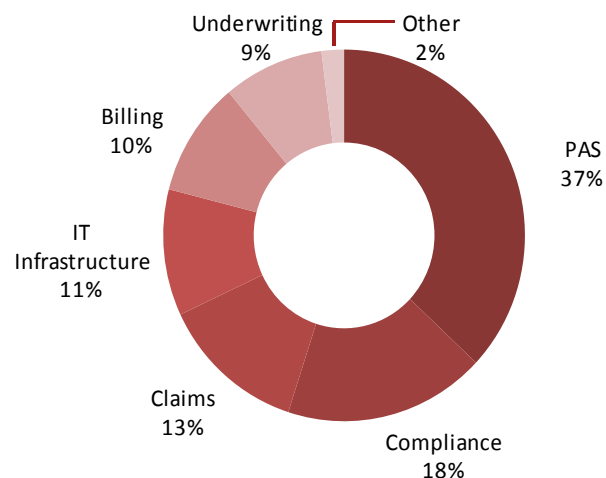
Our industry research, observations, and experience suggest that PAS transformations will continue to be a priority for insurers—regardless of size and product mix—for the near future.

Don't get left behind:

An estimated 60% of P&C companies are deploying new policy administration systems or enhancements to modernize their current systems this year. Insurers are expected to invest a significant amount in PAS replacement or modernization efforts over the next three to five years.



- **Large insurers** tend to spend more on PAS transformations than small or mid-tier carriers due to the increased likelihood of implementing a customized, home grown solution.
- Nevertheless, PAS remains a top initiative for these insurers.
- Large insurers have greater than US\$2 billion in net written premiums (NWP).



- Nearly 40% of **mid-size insurers**, those with US\$500 million-US\$2 billion in NWP, cite PAS as one of their top three initiatives over the next three years.
- Mid-size insurers are able to contain spend by purchasing integrated software solutions.

Point of view

We have observed that large PAS transformation programs are often delivered late or over budget—if at all—as a result of the magnitude, complexity, and above all, poor upfront planning and alignment with key business drivers.

A review of past efforts in this area illustrates there is room for improvement.

29%

Succeeded: The project was completed on time, within budget, and met all original benefit requirements.

Challenged: The project made it to the deadline, but experienced cost/schedule overruns and was unable to fulfill all of the original benefit requirements.

53%

18%

Failed: The project was abandoned or cancelled due to project being unable to meet cost, schedule, or customer expectations.

Transformation parallels with the banking industry...

We have observed that the system transformations being undertaken by the insurance industry parallel those occurring in many banks. Like insurance firms, banks are struggling with implementation challenges such as building the business case, managing project execution, and measuring project impact and benefits. For more information, see PwC's FS Viewpoint publication entitled *When the Growing Gets Tough: How Retail Banks Can Thrive in a Disruptive, Mobile, Regulated World*.

Sources: The Standish Group, based on Fortune 1000 Corporate Interviews regarding strategic projects costing > \$10 M; Ward Group

Point of view

Insurers in the “53% – Challenged” category can miss ROI opportunities and struggle to achieve profitable growth and expense ratio reduction targets.

Common characteristics and business implications of challenged PAS initiatives:

Challenges	Characteristics	Business implications
Differentiated customer and agent experience	<ul style="list-style-type: none">▪ Customer experience is not tailored to specific segments; customers continue to encounter inconsistencies across channels.▪ Agents don't view the new PAS platform as a significantly better tool to increase sales.	Despite a significant PAS investment and a new policy platform, customers and agents see little improvement.
Product agility and regulatory improvements	<ul style="list-style-type: none">▪ Introducing new products and enhancing existing products is not as easy as envisioned.▪ Responding to regulatory changes still requires a long IT development cycle.	Competitors who implemented business-aligned PAS systems can take additional market share; the insurer can face adverse selection.
Expense ratio reduction and long term efficiency gains	<ul style="list-style-type: none">▪ Smaller than expected expense ratio benefits are realized in the years following the PAS transformation.▪ The insurer continues to bear the cost of legacy systems because planned systems conversions/sunsets are never completed.	Missed expense ratio expectations; lack of free capital for business improvements to maintain parity or achieve competitive advantage.
Information management and analytics	<ul style="list-style-type: none">▪ Data is not integrated, lacks definition, and continues to be difficult to access and use.▪ Business departments struggle to leverage data for operational analysis, improving underwriting profitability, and gaining insight to customer behaviors and needs.	The insurer does not realize the promise of higher value information to understand customer needs and make better business decisions.

Point of view

When initiating a PAS transformation, insurers often fire at a target before they fully understand where to aim, causing them to miss out on significant ROI by not aligning key business drivers with their transformation strategy.

Carriers can maximize value by approaching PAS transformation as an opportunity to enable carefully targeted business benefits through modernized technology.

Most carriers are taking a technology-driven approach without the benefit of a guiding business strategy and associated capabilities focused on yielding the greatest benefit. By replacing or modernizing the legacy systems and doing nothing more, carriers are taking on higher risk and missing significant opportunities to create a competitive advantage through a cost-efficient operating model, enhanced customer focused capabilities, or improved market agility. In other words, these carriers are firing at a PAS transformation target before they fully understand where they should be aiming.

Before moving forward, carriers should fully understand their business case, which can vastly differ based on company size, product mix, geographical presence, distribution channels, and overall market dynamics.

Carriers planning policy administration transformation should evaluate specific business drivers as a diagnostic for assessing how a transformation will impact profitability. This process will enable carriers to gain executive alignment and confidence that available capital is aligned with the highest business priorities. The carrier can target functional enhancements that have the most significant impact on their business. Most importantly, they will be transitioning from a technology-led to a business-led approach in setting policy administration direction, reducing the risk of firing at the wrong target.

PAS Transformation Target Business Benefits



Improve market
responsiveness

Improve operating
leverage

Point of view

Leading carriers have recognized that a successful PAS transformation is dependent on aligning to the prominent industry business drivers that are most relevant to their strategy and operating environment and will result in the most benefits.

Improve market responsiveness

Focus on the customer	1	Simplify customer view Enable more timely and accurate response to inquiries through aggregation of customer data	Product cross-sell	↑
			Profitability	↑
	2	Improve customer & agent experience Focus on high-quality customer and agent interactions and strengthened relations	Customer retention	↑
			Revenue	↑
	3	Enhance multi-channel distribution strategy Increase effectiveness and consistency of product distribution through all channels	Revenue	↑
			Profitability	↑
	4	Enhance information management Increase use of business intelligence and analytics for key insights and real-time decision making	Revenue	↑
			Retention	↑
			Profitability	↑
Market agility	5	Introduce new products to market more rapidly Implement product, rate, and service changes in a more timely fashion	Revenue	↑
			Profitability	↑
			Market share	↑
	6	React to regulatory change more rapidly Improve alignment with legal statutes, compliance regulations, and changing reporting requirements	Cost of compliance	↓
			Profitability	↑

Improve operating leverage

7	Improve operational efficiency Create a more efficient and productive environment	Expense ratio	↓
		Policy throughput	↑
8	Increase delivery assurance Provide greater confidence in transforming the business in a timely and minimally disruptive fashion	Expense ratio	↓
		Cost to introduce/react	↓
9	Eliminate legacy platforms Migrate toward more modern, standard, and efficient technology platforms	Expense ratio	↓
		Reusability	↑
		Maintenance cost	↓
10	Reduce cost pressures Achieve sustainable cost reduction through financial management	Cost to compete	↓
		Profitability	↑

Point of view

Shifting to a customer-centric business model by integrating data across channels will be the first point of differentiation for carriers who are trying to meet the demands of their customers and agents.

Old paradigm: Policy-centric (legacy PAS platforms)

New paradigm: Customer-centric (modernized PAS platforms)

Policy-centric system design and data management
optimized business processes within policy admin systems



- Customer-centric business processes are supported by operational data from all systems, including policy admin

Standardized approach to customer service, with limited
use of segmentation for differentiated treatment



- Segmentation differentiates treatment of customers, including data available in admin systems as well as external (third-party) data
- Increased personalization of content, products, and services for the individual

Customer interactions history and associated information
isolated into channel-specific servicing applications



- Customers expect insurers to provide a consistent, multi-channel experience and share the data from policy admin and other systems for use in all customer-facing business processes

Reactive back-office processes analyze policy and
customer data in batches to identify sales opportunities



- Carriers must leverage real-time data services, analytics, and business intelligence tools to deliver the right products and service at each customer interaction

Improve market
responsiveness

Improve operating
leverage

Point of view

An efficient, customer-centric model can help create the foundation for superior customer experience, multi-channel service, and informed decision making enabled by a business-aligned PAS transformation.

Improve agent experience

- The systems are viewed as an invaluable tool to increase close rates and serve customers
- Optimize agent recruitment using analytics
- Attract and retain top performers
- Share consumer insights & prospect data
- Respond to agent demands to improve servicing
- Improve profitability and market share

Enable multi-channel distribution

- Cross-channel information sharing (full views of customer information, interaction history, across all channels)
- Tailored messaging and updates
- Experience sales and service consistency across channels
- Respond to agent demands to improve servicing
- Improve profitability and market share

Create
differentiated
agent
experience

Create
differentiated
customer
experience

Simplified
customer view

Effective cross-
channel service
experience

Data-driven
decision
making

Improve customer experience

- Ease of access to information and services at the point of convenience
- Integration of online, agency, and call center, making complex transactions fast and easy
- Increased sales
- Higher customer retention
- Lower cost of service

Enhance information management

- Increase cross-sell/up-sell by pattern analysis
- Efficient campaign management
- Identify prospective customers and agents
- Mine cross-channel interactions to find sales opportunities and gaps
- Respond to competitive forces
- Improve underwriting profitability and customer intelligence

Increased focus on the customer is also a leading trend across the banking and capital markets space.

Companies across the financial services industry are recognizing the competitive advantages that may be gained through better customer targeting. As discussed in PwC's FS Viewpoint publication entitled *Getting to Know You: Building a Customer-Centric Business Model for Retail Banks*, many banks are investing in new technology to capture better data for profiling customers, enabling these institutions to gain deeper insight into ways to build more loyal and profitable customer relationships.

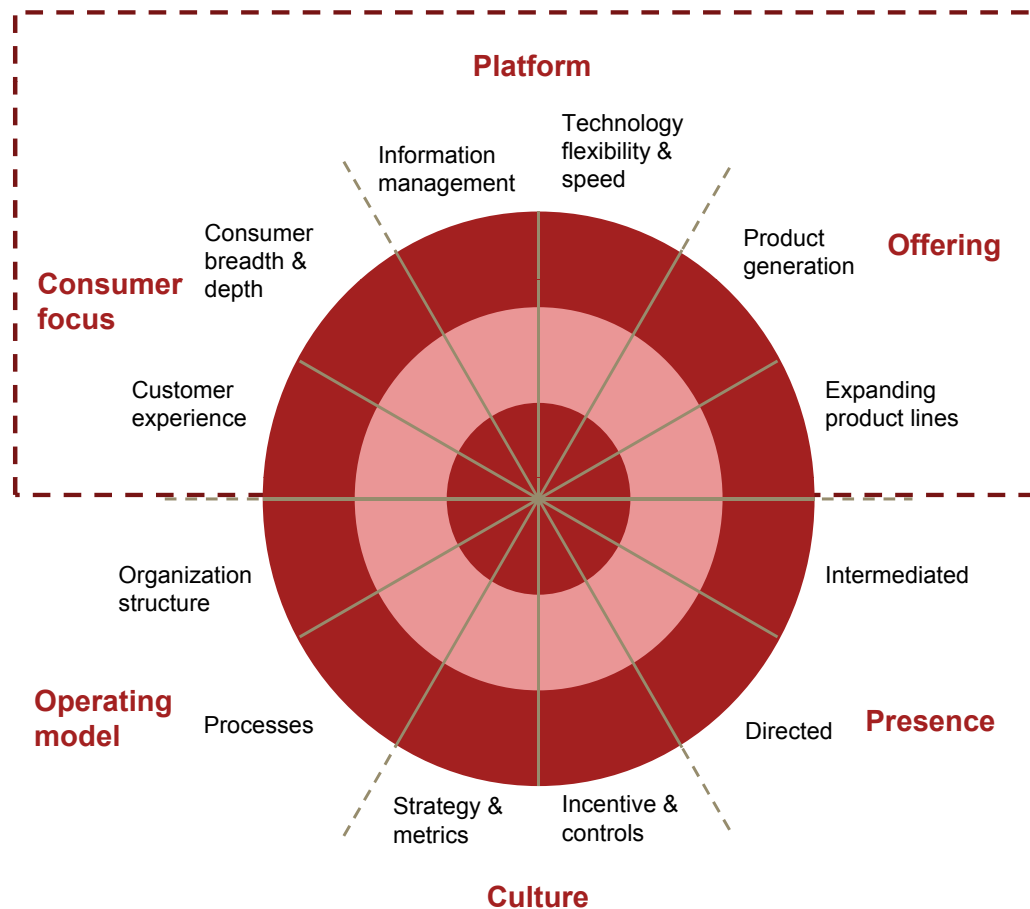
Improve market
responsiveness

Improve operating
leverage

Point of view

Leading insurers recognize that improved market agility is one of the most direct and immediate impacts of a well-aligned PAS transformation.

Market Agility Framework



Market agility drivers influenced by effective PAS transformation:

Product offerings:

- **Innovative products to market** - Drive significant quantities of new, innovative products within existing products lines to the marketplace (e.g. product bundling).
- **Scope of existing markets & products** - Expand breadth of offerings outside core markets and products (e.g. introducing coverage for a specialty market).
- **React to regulatory & risk change** - Improve ability to react to regulatory change and risk exposure shifts.

Consumer focus:

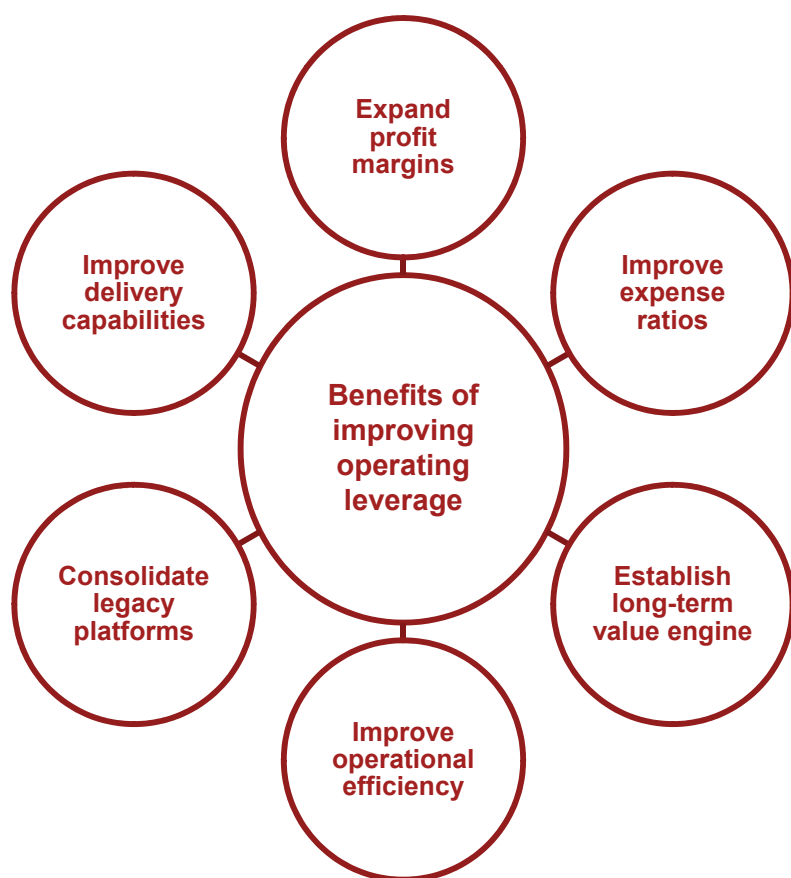
- **Respond to existing customer needs** - Increase penetration and share of wallet within consumer base and expand to new consumer types.
- **Respond to prospective customer needs** - Drive innovation based on changing consumer bases and continually respond to customer needs and desires.

Platform:

- **Flexible platform** - Policy administration system can provide the flexibility to handle rapid product change.
- **Business intuitive platform** - Enables business users to rapidly move from business ideation through technology implementation for significant changes to products or features.

Point of view

PAS transformation can be a direct enabler to improved operating leverage by addressing redundant platforms and processes, simplifying existing systems, and reducing underlying cost pressures.



Benefits of improving operating leverage

Expand profit margins	<ul style="list-style-type: none"> Enables improvements on the revenue side by improving delivery capabilities and getting profit-generating products to market faster. Enables expense-side improvements by reducing cost to run the business, the cost to implement change, and the cost to process business.
Improve expense ratio	<ul style="list-style-type: none"> Enables more underwriting efficiency and basic run-the-business efficiency. Reduces cost associated with multiple systems, operational inefficiencies, and failed IT implementations. Overall expense ratio improvements will be experienced in the years immediately following a PAS transformation.
Establish long-term value engine	<ul style="list-style-type: none"> Enables a long-term technology landscape that can produce revenue-generating change with less cost to the carrier.
Improve operational efficiency	<ul style="list-style-type: none"> Results in ease of doing business improvements and associated cost reductions. Results in improved customer satisfaction associated with easier processing. Results in potential headcount reduction associated with inefficient processes.
Consolidate legacy platforms	<ul style="list-style-type: none"> Reduces costs associated with old, inefficient systems. Reduces vendor and overall portfolio spend. Enables simplification of technology skill sets. Creates simplified technology landscape and contributes to improved delivery assurance.
Improve delivery capabilities	<ul style="list-style-type: none"> A modernized platform helps to enable delivery capabilities. Less complication of systems enables more distribution of system knowledge. More readily available and skilled resources are associated with modernized systems.

Point of view

Policy administration system transformations can also enable important operational efficiency improvements. To help maximize the benefits of these improvements, insurers should also account for productivity considerations in their business case development.

Operational Efficiency Gains

Automate UW processes

- Implement STP via advanced business rule definition
- Reduce UW cycle times and referral volume, and enable automated re-underwriting

Increase self-services

- Implement agency and customer self-service portals
- Reduce call center efforts
- Reduce unnecessary customer touch-points



Decrease data entry

- Leverage third-party data integrations
- Increase system pre-fill rules, lookups, and defaults
- Reduce data entry/hand-offs

Simplify IT efforts

- Decrease product design, development & testing efforts
- Shorten PAS learning curve
- Reduce error-prone batch cycles & defect management

Productivity opportunities and benefits

Reinvest in value-add growth-generating activities

- Insurers can leverage these industry advancements in terms of business capabilities and technological flexibility in order to create a more efficient and productive internal and customer-facing environment.

Justification for potential staff reductions or redeployment opportunities

- Operational efficiency derived from policy administration, claims, and billing transformation should make some manual business processes obsolete, resulting in potential staff reductions or more effective utilization of talent through redeployment.

Further ease-of-doing-business improvements

- A modernized policy administration or claims platform can enable insurers to automate business rules, implement straight-through processing (STP), streamline underwriting procedures, and more effectively conduct claims adjustment and fraud detection.
- Carriers are able to focus underwriting talent on high-impact activities.

Future opportunity cost avoidance

- The benefits of operational efficiency derived from a core systems transformation will result in time savings that can be reinvested toward more value-added activities.

Point of view

A well-designed transformation can enable systems reuse and legacy platform consolidation that improves operating leverage and drives both qualitative and quantitative benefits to insurers.

Opportunity categories

Consolidation: Reduce the number of systems or feeds needed to support similar functions across departments; move systems off obsolete platforms to align with future architectural direction.

Integration: Increase the use of existing system and data through effective interfaces and, as appropriate, provide uniform views of information across departments.

Sourcing: Introduce alternate sourcing strategies for application development, maintenance, and/or operations.

Quantifiable benefits

Reduced portfolio maintenance spend	<ul style="list-style-type: none"> Save an estimated 10%-30% on maintenance budget through license reduction, hardware/software rationalization, or service contract elimination.
Reduced vendor spend	<ul style="list-style-type: none"> Identify and address vendor tool redundancy. Reduce the number of vendors and improve licensing agreements.
Simplified technology skill set	<ul style="list-style-type: none"> Migrate to fewer supported technologies requiring a more consolidated skill set. Develop expertise within a smaller set of technologies.
Reduced FTE count or improved talent utilization	<ul style="list-style-type: none"> Fewer FTEs required to support the portfolio due to simplification of technology and reduction in environment complexity. Improve productivity by redeploying resources to other activities that advance the business.
Reduced development costs and delivery time	<ul style="list-style-type: none"> Reuse common functional services to reduce custom development needed on per-project basis.

Qualitative benefits

Improved service levels	<ul style="list-style-type: none"> Improve scalability, performance, and resilience of applications to meet planned growth in demand.
Improved distribution	<ul style="list-style-type: none"> Reuse capabilities across distribution channels without having to re-program the same business logic.
Enhanced ease of compliance	<ul style="list-style-type: none"> Reduce time and costs of compliance since information and processes are built into reusable services. Decrease the risk that critical functions are left unsupported or on outdated systems.
Simplified system architecture and enterprise-level data aggregations	<ul style="list-style-type: none"> Break down application stovepipes, increasing information sharing across the enterprise High accuracy of data due to consistent business rules and processes encapsulated within the shared services.

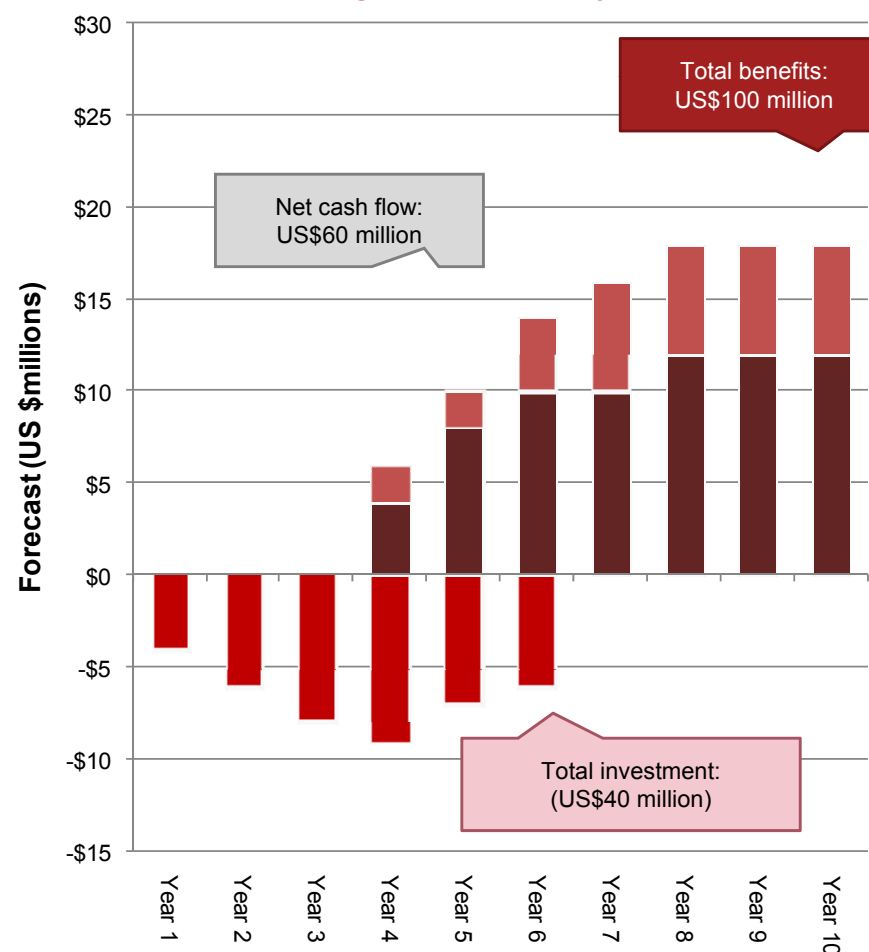
Point of view

A PAS investment aligned to the carrier's specific business drivers can result in material and quantifiable market responsiveness and operating leverage benefits.

Improved market responsiveness	\$ 68.0 M
▪ Expanded profit margins	\$ 20.0 M
▪ Increased market share	\$ 15.0 M
▪ Improved loss ratios	\$ 10.0 M
▪ Increased growth and retention	\$ 10.0 M
▪ Increased cross-channel sales	\$ 8.0 M
▪ Enhanced information management	\$ 5.0 M
Improved operating leverage	\$ 32.0 M
▪ Increased operational efficiency	\$ 14.0 M
▪ Modernized technology platform	\$ 10.0 M
▪ Reduced FTE count	\$ 8.0 M

Hypothetical scenario:

US\$1 billion regional carrier, 10-year business case



Point of view

Leading insurers are already reaping the benefits of modern and flexible policy administration systems because they prioritized business drivers and aligned them with the PAS transformation.

Leading insurers have successfully replaced policy administration systems via business-led programs, allowing them to plan and execute a PAS transformation that was fully aligned with their long-term business priorities.

Some of these insurers have aligned their transformation programs with the primary objective of **improving operating leverage** by modernizing platforms that enable automated underwriting, reduce data entry, and eliminate systems redundancy. These carriers recognized the need to decrease operating costs, improve the expense ratio, and increase productivity through reinvestment in more high-value tasks.

Other insurers have determined that aligning the PAS transformation with the primary objective of **improving market responsiveness** will result in the most benefits and have the best impact on their business priorities. These leading carriers have moved forward with a system designed to enable a simplified customer view and reliable data gathering. A system that is flexible to rapid change will result in improved profitability and operating ratios.

These leading insurers understood what was driving their business and planned for the PAS transformation to be an enabler for those improvements.

Point of view

In our experience with leading insurers, PAS transformation programs are far more likely to succeed when carriers invest time to understand the core business drivers upfront and plan a business case that fully aligns its operating strategy with the transformation.

Strategy and business case scenario planning

Vendor selection

Mobilization

Execution

1 Strategic and business case scenario planning

- Understand business design and operating environment
- Prioritize key drivers for transformation
- Identify and prioritize key technical constraints
- Determine transformation scenarios
- Assess high level costs, benefits, and risks of each scenario
- Evaluate scenarios against business and technical drivers
- Recommend optimal scenario based on evaluation output

2 Select a vendor & solution:

- Conduct vendor search
- Execute an RFI/RFP
- Conduct vendor workshops
- Select a vendor

3 Mobilization

- Decompose selected scenario into an achievable roadmap
- Create execution plan
- Mobilize resources

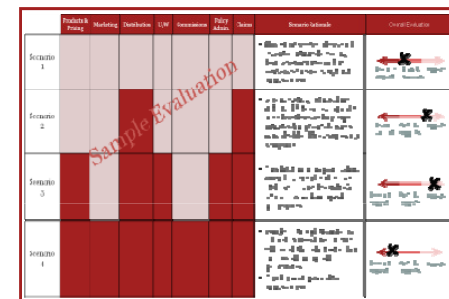
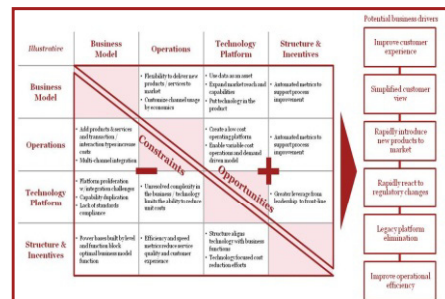
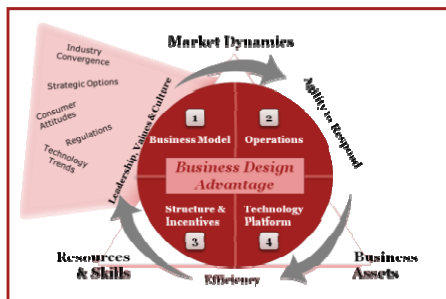
4 Execute the Program:

- Program management
- Development
- QA & deployment

Understand business design

Prioritize business drivers

Align transformation scenarios



Section 2

Competitive intelligence

Competitive intelligence

Leading insurers have a strong understanding of their business drivers, but not all excel at aligning with their strategic transformations.

Characteristics of business design and transformation	What we observe in the industry		
	Insurer A	Insurer B	Insurer C
Grasp of business design and operating environment	<ul style="list-style-type: none"> Leadership conducts a frequent and thorough review and refresh of its strategic drivers, business design, and operating environment. ■ A senior management team member is dedicated to owning and understanding how market dynamics and competitive landscape could alter the insurer's business design. ■ 	<ul style="list-style-type: none"> Leadership reviews and refines business design objectives less than once a year, but is aware of how they are tracking against objectives. ■ Business design refinement is not owned within the senior management team. ■ 	<ul style="list-style-type: none"> Senior leadership team rarely revisits business design and operating environment to determine if revisions are necessary. ■ Few employees can understand what is driving the organization and how they plan to move forward to improve the business. ■
Alignment of business priorities & objectives	<ul style="list-style-type: none"> Business drivers are reviewed and often re-prioritized based on outcomes of the frequent reviews. ■ "Word of mouth" is used to disseminate changes in business priorities, which takes time and results in inconsistent messages. ■ 	<ul style="list-style-type: none"> Insurer has no business case but only aspirational objectives that are not linked to specific people, process, and technology enablers. ■ Insurer builds technology and assumes benefits will follow, rather than first developing a business case and aligning the transformation program to it. ■ 	<ul style="list-style-type: none"> Insurer starts with a business case that ends up underestimating cost and overestimating benefits due to the lack of detailed analysis and the benefit of experience. ■
Transformation that reinforces business priorities	<ul style="list-style-type: none"> The transformation initiative begins and business priorities are considered when implementation questions arise, resulting in disruption, rework, and unplanned costs. ■ 	<ul style="list-style-type: none"> IT constraints are clearly understood and considered in scenario planning, which avoids costly missteps. ■ Motivated by previous challenges, an overly cautious IT influence limits financial and business benefits. ■ 	<ul style="list-style-type: none"> Insurer has a portfolio of disjointed transformation programs that are not focused on a common objective and linked to business priorities. ■

■ Leading ■ On par ■ Lagging

Competitive intelligence

Transformation scenario planning can be a difficult and ambiguous task. The following are observations of how various insurers have dealt with this exercise.

Characteristics of transformation scenario planning	What we observe in the industry		
	Insurer A	Insurer B	Insurer C
Active and consistent involvement by business and IT leaders	<ul style="list-style-type: none"> Senior leaders take time to understand the initiative and are actively engaged from strategy through deployment. ■ Key business owners work closely with program leaders to identify, quantify, and validate realistic benefits. ■ 	<ul style="list-style-type: none"> Leaders grow impatient with the rigor needed to develop a clear and viable business case and decide to proceed without a sufficient understanding of costs and benefits. ■ Key business owners are champions of the initiative and insist on being closely involved in planning, mobilization, and execution to ensure benefits are realized. ■ 	<ul style="list-style-type: none"> Leadership does not request a business case, but the initiative runs into roadblocks when it cannot be cost justified. ■
Balancing risk and reward through incremental business benefits	<ul style="list-style-type: none"> Insurer builds a strong business case for an initiative that is doomed because of the “big bang” approach to accelerate benefits. ■ 	<ul style="list-style-type: none"> Insurer manages risk by exploring options for breaking the transformation into achievable pieces. ■ Senior leadership requires incremental planning to prioritize delivery of benefits. ■ 	<ul style="list-style-type: none"> Initiatives are prone to prolonged and unplanned incremental delivery cycles as a result of shifting priorities within the organization. ■
Recognize and plan around IT constraints	<ul style="list-style-type: none"> IT is at the table for planning discussions but risks raised are not taken seriously. ■ IT is involved and has a voice in the transformation scenario planning. ■ 	<ul style="list-style-type: none"> IT is rarely involved in business prioritization and business case development. ■ IT is included in scenario planning but does not make a meaningful contribution due to lack of business context. ■ 	<ul style="list-style-type: none"> IT is included in transformation planning and the constraints are clearly recognized, but the organizational will is not present to embrace the hard realities and adjust the plan. ■

■ Leading ■ On par ■ Lagging

Competitive intelligence

Even if insurers identify an ideal PAS transformation scenario they still have additional challenges to address within vendor selection, mobilization, and execution.

Characteristics of PAS transformations conducted by various insurance carriers	What we observe in the industry		
	Insurer A	Insurer B	Insurer C
Choosing the right vendor	<ul style="list-style-type: none"> Senior leadership is only interested in the cost aspect, abdicating management of other success factors. ■ Insurer engages relevant vendors in a rigorous process to understand business fit and platform agility. ■ 	<ul style="list-style-type: none"> Insurer selects a vendor because they liked the sales presentation and the licensing fee is low. ■ Insurer allows vendor to water down the business case because it reduces their risk and accepts the implications unchallenged. ■ 	<ul style="list-style-type: none"> The vendor met at a conference is selected after seeing the user interface mock-ups and deciding it is a fit for the insurer's transformation program. ■ Insurer conducts a use case based proof-of-concept to validate the vendor can meet real-world requirements. ■
Leadership and governance to keep the initiative out of trouble	<ul style="list-style-type: none"> Senior leadership is actively engaged and requires regular updates with facts and analysis to enable informed decisions. ■ Governance venues are established with the right participants and operating principles to make them effective. ■ 	<ul style="list-style-type: none"> Senior leadership checks out after contract negotiations, relying on periodic updates to stay informed. ■ Program is critical to long-term success, but senior management does not understand how the business case will produce the needed results. ■ 	<ul style="list-style-type: none"> Senior management has authorized a strategic investment in the program but then loses interest, no longer citing the program as key to meeting long-term objectives. ■ Inexperienced junior management resources are accountable for delivering a strategic program without sufficient oversight. ■
Resources and capacity needed to be successful	<ul style="list-style-type: none"> Key roles staffed with dedicated internal and external resources. ■ Insurer is contracted with a reputable vendor but locked into a time and material contract with no incentives to control costs. ■ 	<ul style="list-style-type: none"> Insurer has strong and committed internal resources on the program. ■ Insurer utilizes vendor resources in strategic roles where their specialized skills can make a difference. ■ 	<ul style="list-style-type: none"> Insurer uses low-cost/capability contractors with limited vendor knowledge and motivation. ■ SMEs are allocated with limited involvement as they try to balance their day job with project responsibilities without backfill. ■

■ Leading ■ On par ■ Lagging

Competitive intelligence

In our experience, insurers will be forced to consider a number of success factors and stumbling blocks throughout the PAS transformation.

Critical success factors (+)		Stumbling blocks preventing success (-)	
Business-IT alignment	Business capabilities should drive the technology roadmap and key decisions. When the business and IT are engaged in a true partnership, the chances for success greatly improve.	Scope creep	Stakeholders continually change or add features without regard to impact to cost and schedule.
Strong leadership and program management	An active, aligned leadership team sets the tone for the rest of the program. By being willing to make tough decisions and being actively engaged in the program, strong leaders provide the steady hand and focus required for a long-term PAS journey.	Lack of leadership	With a lack of a strong leader to maintain focus and pace, the initiative is orphaned by business and IT management.
Formalized organizational change management	Successful programs employ a structured approach to organizational change management that identifies all affected stakeholders early and develops a plan to obtain buy-in, develop and execute communication/training plans, and effectively implement organizational change with minimal disruption.	Insufficient change management scope	Training and communication are often viewed as sufficient to drive adoption but are not enough.
Clear roadmap	A well-defined roadmap addressing scope, architecture, integration, conversion, resources, and sun-setting laid out in a logical progression enables a timely PAS transformation.	Tactical solution	By using old inefficient processes on new technology, organizations miss out on lower cost and higher customer service opportunities.
Active stakeholder involvement	Having key stakeholders actively involved and holding them accountable for decisions is absolutely critical to program success. By creating a sense of ownership, stakeholders tend to make more responsible decisions because they have “skin in the game.”	Lack of talent/ experience	Existing resources without complex program experience and skills cannot be successful on a strategic initiative.
Right people on the bus	Identifying top resources to help ensure that the right people (such as SMEs, BAs, PMs, and testers) are playing critical roles on the project is paramount to the success of PAS.	Alternate governance	The organization undermines its initiative by allowing a vocal minority of dissenters to drive their own agenda.
Empowered team members	At every level, people need the proper authority to make decisions without having to go to a committee or upper management. This yields quick decisions and prevents delays and rework.	Passive stakeholder involvement	Stakeholders abdicate their role as leaders and disengage from the day-to-day decision making.
Quick wins	Tying benefits to delivery milestones provides stakeholders with immediate and tangible results and increases support throughout delivery. Quick wins are necessary to build confidence and buy-in for the program.	Shifting focus	Stakeholders lose focus on the initiative that is most important to the future of the organization in favor of other priorities.

Section 3

A framework for response

A framework for response

Successful PAS transformations are aligned with the insurer's business design and operating environment. Leading insurers understand what will make them more competitive and help ensure that the PAS transformation reinforces those business drivers.

Understand business design

- Validate the business model
- Define the operating model
- Understand the necessary organizational structure and skills
- Identify an appropriate technology platform

Prioritize business drivers

- Analyze the business design components, opportunities, and constraints
- Use the business design analysis to develop a prioritized set of business drivers

Align transformation scenarios

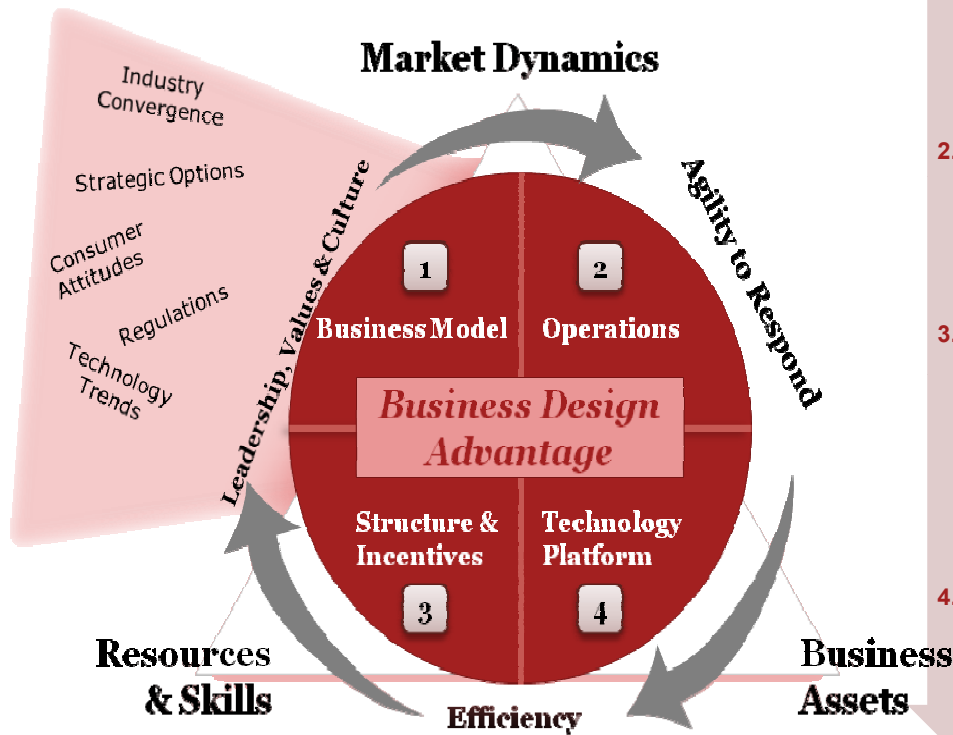
- Using the prioritized business drivers, consider the relevant technology factors, such as scalability and integration
- Leverage the technology considerations to produce transformation scenarios, such as using a vendor solution or modernizing legacy
- Score each of the transformation scenarios against how well they support the prioritized business drivers

★ *Where lagging insurers often miss the target*

A framework for response

An understanding of the overall company business strategy sets the context for a successful evaluation of a potential PAS transformation.

Sample business design components and diagnostic findings

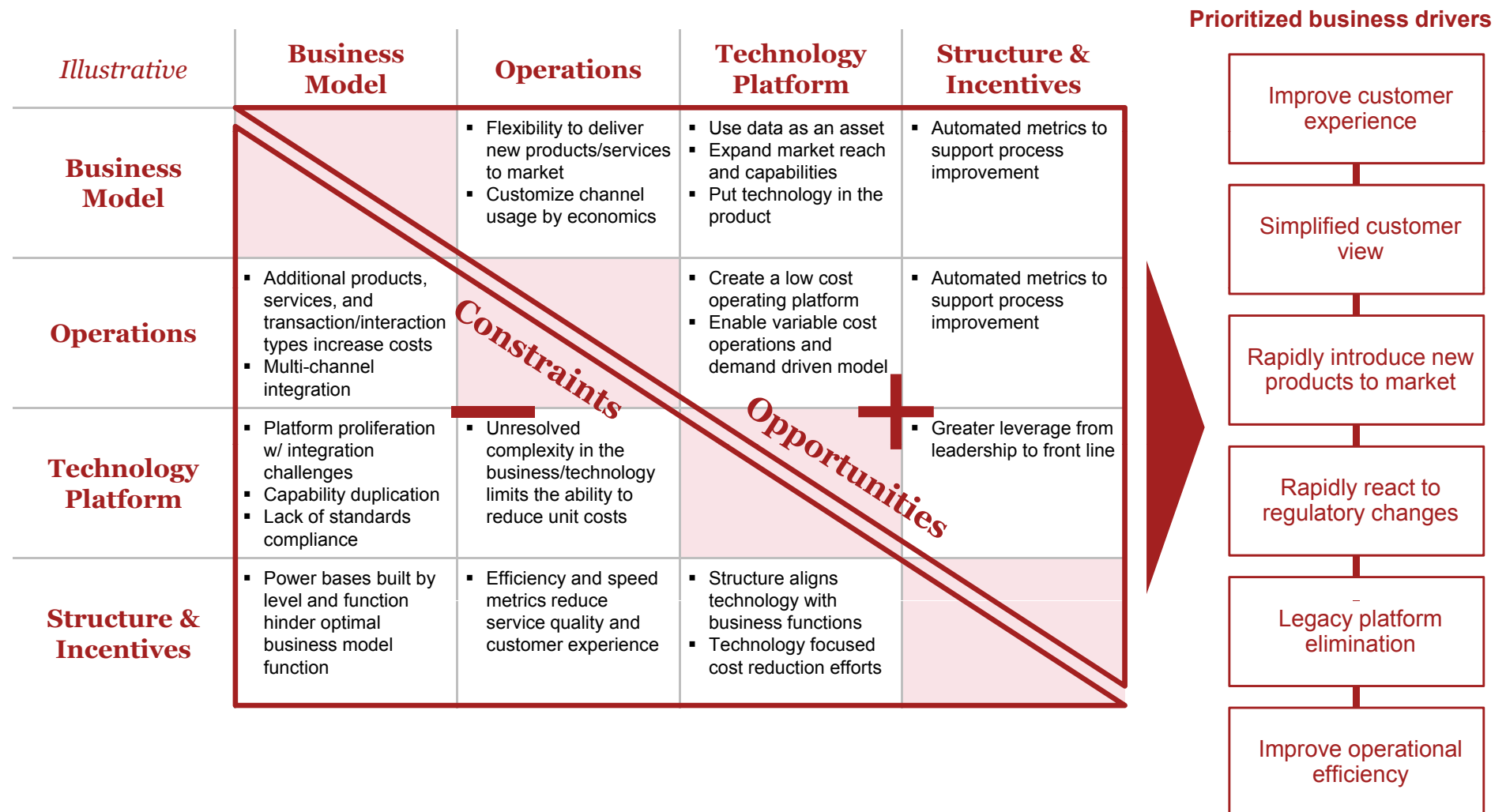


1. **Business model**
How we fundamentally profit...
2. **Structure & incentives**
How we encourage and enforce our vision...
3. **Operating model**
How we most effectively organize to support business model...
4. **Technology platform**
How we support, automate, improve, and innovate our go-to-market capabilities...

Products	Channels	Markets
Trade-offs where single margins are sacrificed to increase overall share. Identify product bundles that represent growth.	Products in each channel that represent the best cross-sell/up-sell opportunities.	Best market opportunities across products and channels.
Subsidies for one product to drive growth in another. Commission and bonus structure impact.	Online & offline channel incentives to support each other vs. competing against each other.	Incentive changes to orient more toward customer than product.
How will product management be organized to best cover the matrix of geographies, products, & channels. Which functions should be centralized.	How will we leverage customer support functions across channels (i.e. call centers).	What additional services need to be supported in the future. What trends will impact our design.
Degree to which reduced technology spend with self-fund changes. Degree to which technology platforms enable products to be sold in multiple channels.	Level of channel integration necessary. Definition of how a single, flexible online channel can be leveraged.	The right sequence for reorganization to maximize the largest top & bottom line opportunities.

A framework for response

By evaluating the business design across various dimensions, insurers should clearly identify opportunities and constraints that will enable them to prioritize specific business drivers that can be aligned with their PAS transformation.



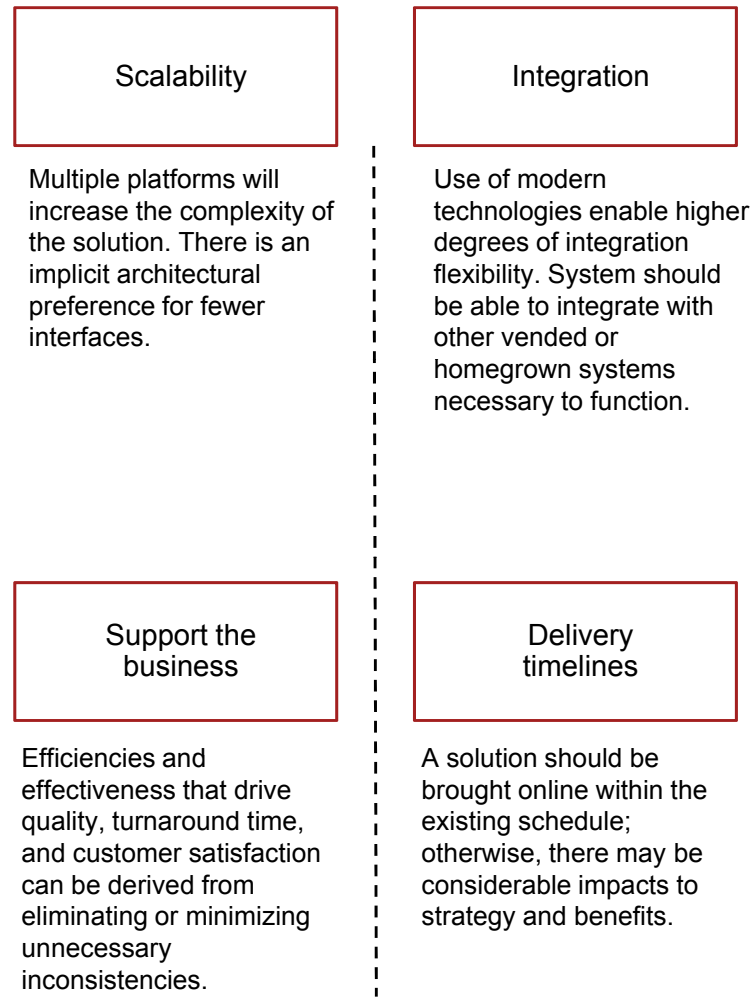
A framework for response

A combination of the prioritized business drivers and most relevant technology considerations will produce various transformation scenarios that can be evaluated.

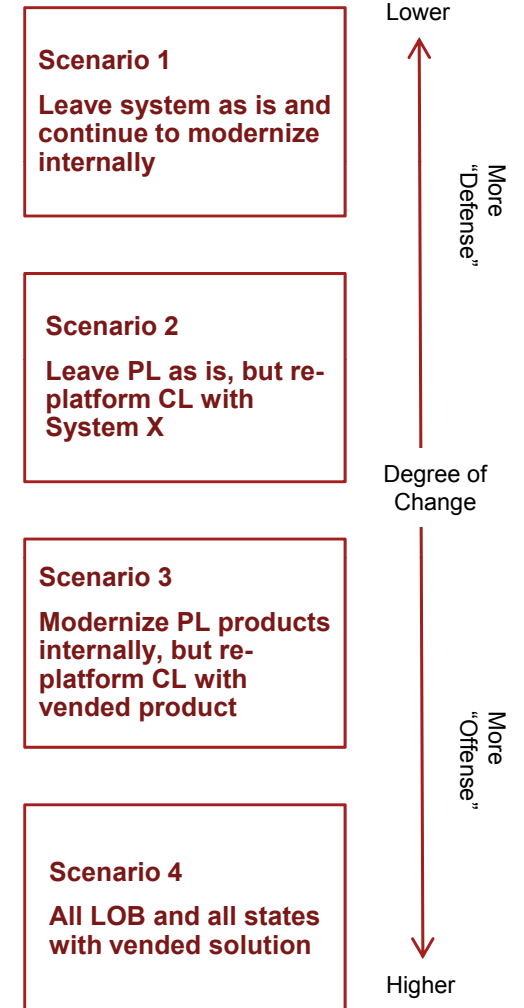
Prioritized business drivers



Prioritized technical considerations



Transformation scenarios



A framework for response

Various transformation scenarios should be evaluated and given an overall score in relation to how well they align with the prioritized business drivers.

	Speed to market	Operational efficiency	Simplified customer view	Delivery timeline	Platform elimination	Scenario rationale	Overall evaluation of scenario
Scenario 1						<ul style="list-style-type: none"> Basic modernization of the system will not fully maximize benefits around speed to market, cost reduction, and customer view, but will improve delivery timeline. 	 Does not support Partially supports Supports
Scenario 2						<ul style="list-style-type: none"> Leave low-touch customer lines of business as is and focus on the underwriting heavy CL products for policy administration transformation. 	 Does not support Partially supports Supports
Scenario 3						<ul style="list-style-type: none"> Address personal lines and commercial lines products with separate solutions. The PL solution will require customization as the vended products is not adequate. 	 Does not support Partially supports Supports
Scenario 4						<ul style="list-style-type: none"> Address all lines of business with a vended solution that will simplify the system and address many of the business drivers. However, this will be the most expensive scenario with the greatest impact on delivery timelines. 	 Does not support Partially supports Supports

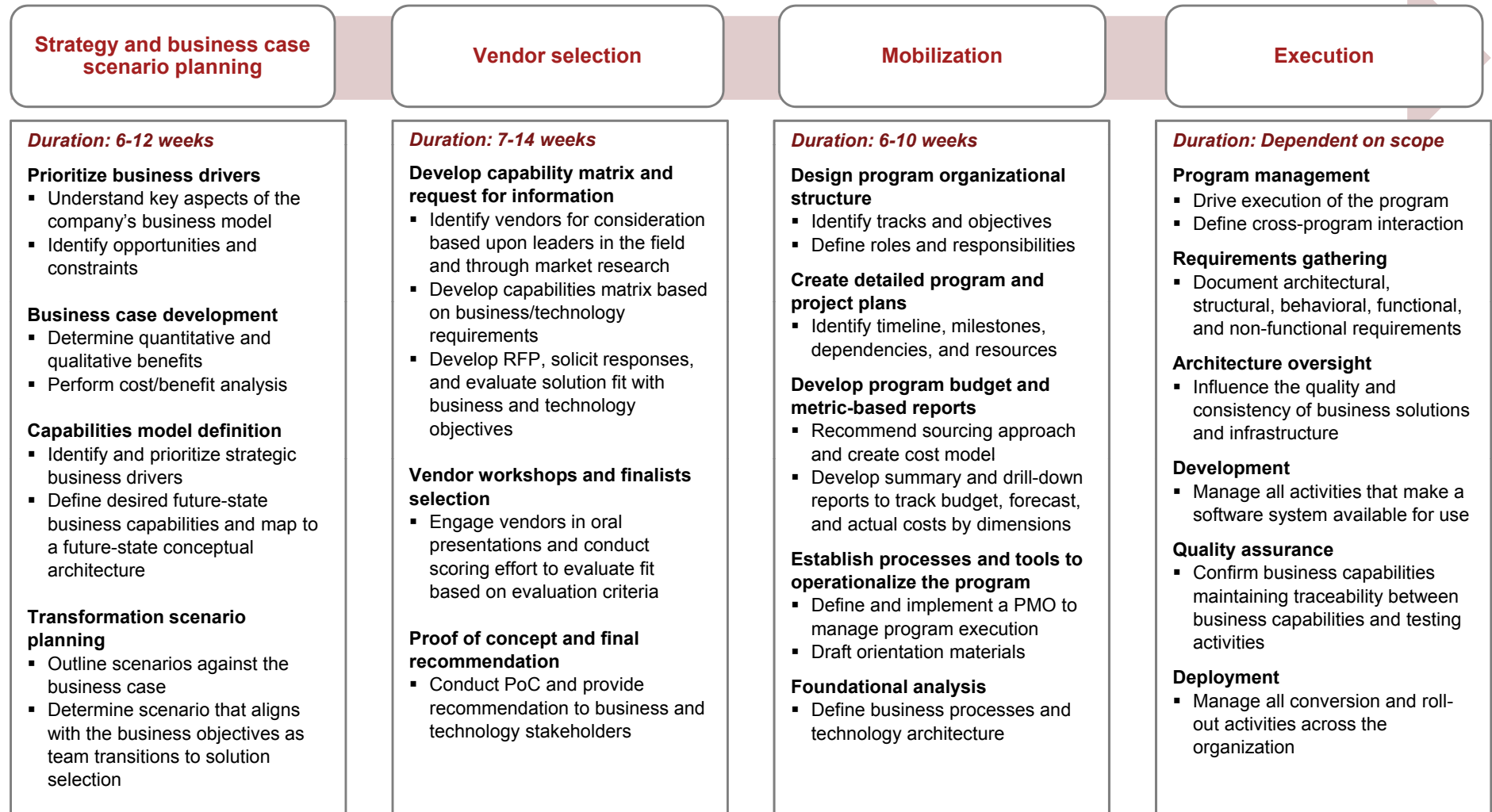
Does not meet business driver criteria
 Partially meets business driver criteria
 Meets business driver criteria

Section 4

How PwC can help

How PwC can help

PwC provides a one-stop solution from strategy to results; our experience with PAS transformation spans each approach, and we can help emphasize the factors that can result in a successful transformation with real business benefits.



How PwC can help

As insurers progress through the policy administration transformation lifecycle, they face questions that encompass strategic, business value, risk, and cost considerations.

	Situation #1	Situation #2	Situation #3	Situation #4
	Strategy and business case scenario planning	Vendor selection	Mobilization	Execution
Questions	<ul style="list-style-type: none"> What should we do and how can we get the business and IT leaders behind the initiative? 	<ul style="list-style-type: none"> Many vendors claim that they have what we need and have done the project we are envisioning before, but how can we be sure who would be the right partner for us? 	<ul style="list-style-type: none"> Now that we have selected a partner, how do we avoid the pitfalls that other insurers have experienced, resulting in lower than expected value or a complete write-off? 	<ul style="list-style-type: none"> How do we salvage a challenged project and minimize cost overruns while delivering a solution that is viewed as a success?
Solutions	<ul style="list-style-type: none"> Conduct full benefits case Prioritize business drivers Identify transformation scenarios and develop roadmap 	<ul style="list-style-type: none"> Mobilize a solution selection program Conduct rapid business driver assessment Conduct rapid transformation scenario planning 	<ul style="list-style-type: none"> Conduct a rapid validation of PAS business case Define and deploy the program management and delivery capabilities needed to implement a successful solution 	<ul style="list-style-type: none"> Conduct a program health assessment to identify the root cause of challenges and recommendations for improvements Develop an action plan to align the program for success Implement the program remediation plan

How PwC can help

Situation #1 – The need for a new PAS platform is understood, but the insurer is unclear on how to gain alignment and develop a compelling business case.

Overview of current PAS lifecycle phase

- The insurer's policy administration platform is not allowing the desired market responsiveness and is costly to maintain.
- A new platform is needed, but the organization first needs to identify the PAS capabilities that will enable the business strategy.
- A compelling business case needs to be developed with options in order to move forward.

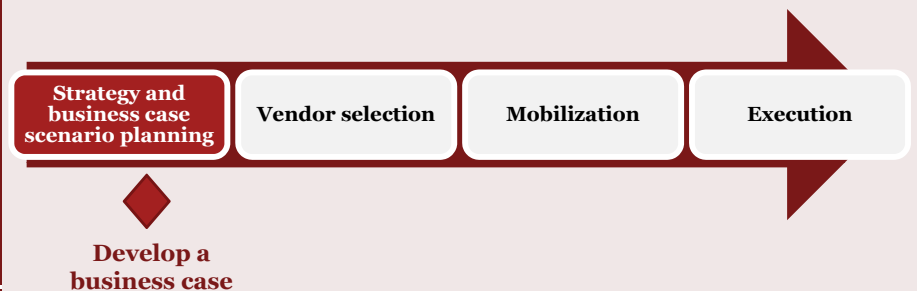
Considerations

- With the breadth and depth of PAS business functions, what capabilities should be prioritized to maximize ROI?
- How can complete and accurate articulation of costs and benefits be captured to create a compelling business case?
- What options should the organization consider?
- What is the right way to approach the PAS transformation?

How PwC can help

- PwC will work with the insurer to identify the capabilities and develop a business case using the 10 key business drivers, resulting in a prioritized set of capabilities.
- PwC will conduct a transformation scenario diagnostic and planning exercise to provide perspective to cost/benefit options.

Policy Admin Transformation Lifecycle



Key activities may include:

Prioritize business drivers and define required capabilities

- Understand the key aspects of the company's business design and strategy.
- Identify opportunities that map back to the 10 key business drivers for policy administration.

Develop business case

- Determine quantitative and qualitative benefits of conducting a policy administration transformation.
- Understand which business drivers will bring the most benefit (cost/benefit analysis).

Identify transformation options and scenario planning

- Outline scenarios against the business case based on key business drivers and technology considerations.
- Determine the relevant options based on the business objectives for consideration by organizational leaders.

How PwC can help

Situation #2 – Insurer has a clear justification for a new PAS vendor and solution but is unsure how to select the right partner given their business and IT environment.

Overview of current PAS lifecycle phase

- Key business and IT stakeholders agree on the need for a new policy administration platform as a means to enhance market responsiveness and control costs.
- The insurer has investigated PAS solution options but needs to better understand the strengths and weaknesses of each to narrow the field of potential partners.

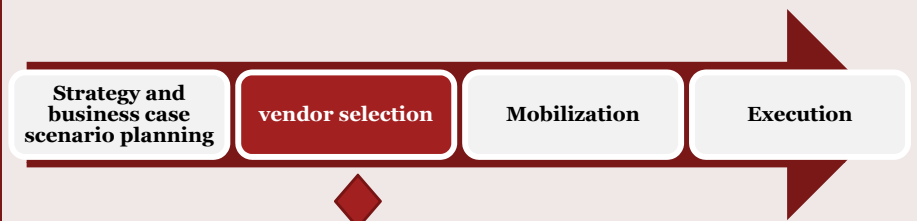
Considerations

- There are many vendor options but with unclear differentiation and understanding of which vendor would most appropriately align with the specific needs of the insurer.
- The criteria that would provide linkage between insurer needs and vendor capabilities is missing to inform the solution selection process.

How PwC can help

- PwC will work with the insurer to develop solution selection criteria by conducting a rapid business driver assessment.
- PwC will work with the insurer to create a vendor assessment framework and scorecard linked to business drivers and high-level functional capabilities.
- PwC will work with the insurer to perform PAS vendor and solution due diligence to arrive at a recommendation for a vendor partner.

Policy Admin Transformation Lifecycle



Mobilize solution selection and conduct rapid business driver assessment

Key activities may include:

Rapid business driver assessment and scenario planning

- Conduct rapid business driver assessment to identify prioritized high-level business capabilities and scenarios designed to create clarity to the insurer's specific solution requirements.

Capabilities matrix for solution selection

- Map desired capabilities to RFI/RFP questions for the purpose of scoring perspective vendors.

Conduct solution selection and produce recommendation

- Identify prospective vendors and develop an RFI/RFP.
- Score vendors based on the RFI responses and identify vendors to engage in onsite visits and proof of concept phase.
- The result is a recommendation based on scoring and proof of concept results based on objective, insurer-specific criteria.

How PwC can help

Situation #3 – The solution has been selected but there are questions about the organization's ability to successfully manage and deliver the PAS transformation.

Overview of current PAS lifecycle phase

- The insurer has a business case, performed some initial planning, and selected a vendor partner.
- The next step would be implementation, but the insurer would like the business case validated and evaluation of the approach before moving forward.

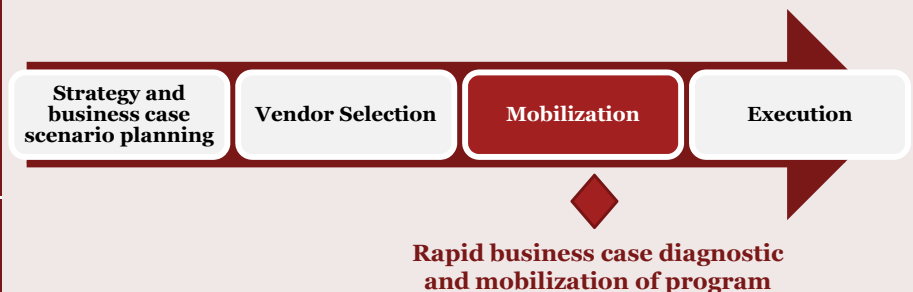
Considerations

- Business case was developed internally and would benefit from outside validation to help ensure it reflects industry best practices.
- During vendor selection, the insurer identified important new capabilities that need to be incorporated into the program.
- Insurer has little experience with initiatives of this size/complexity, raising questions about how to position program for success.

How PwC can help

- PwC recognizes a vendor has been selected and the program is planning to move forward with mobilization soon.
- PwC will work with the insurer to validate business drivers and high-level functional capabilities to refresh the business case as needed.
- PwC will evaluate transformation scenario planning and mobilize the program to help ensure the management and delivery leading practices are ready to support implementation.

Policy Admin Transformation Lifecycle



Key activities may include:

Rapid business driver assessment and scenario planning

- Conduct rapid business driver/capability assessment and business case refresh reflecting business needs and vendor capabilities.
- Map desired capabilities to RFI/RFP questions to evaluate vendor package alignment to business capabilities, highlighting areas that will need additional emphasis during implementation.

Conduct standard program mobilization activities

- Identify the program management and delivery capabilities needed to augment what is already part of the program.
- Develop program organization structure and detailed project plans.
- Establish processes, tools, and resources to operationalize program delivery and manage risk.
- Establish scope and budget of initial program release, taking into account goals, constraints, and risk tolerance.

How PwC can help

Situation #4 – The in-flight PAS program is experiencing challenges with warning signs of cost overruns beginning to appear.

Overview of current PAS lifecycle phase

- The insurer is well into delivery of its policy administration transformation program with the vendor partner.
- The program is experiencing challenges meeting scope and schedule targets, with costs beginning to add up.
- There is a lack of stability with core requirements changing and new requirements being added on a regular basis.

Considerations

- The insurer has difficulty assessing the state of the program without an accurate baseline.
- The new requirements being added seem to be necessary even though they were not in the original scope.
- Warning signs of cost overruns are emerging but there is reluctance to stop and assess the program.

How PwC can help

- PwC will conduct a program health assessment to understand the situation and identify root cause.
- PwC will work with the insurer to create a plan for remediation of management and delivery capabilities necessary to produce better program performance.
- PwC will assist the insurer in aligning the program execution to the remediation plan with the necessary controls and instrumentation to track progress going forward.

Policy Admin Transformation Lifecycle

Strategy and
business case
scenario planning

Vendor selection

Mobilization

Execution

Full business case remediation
and program health assessment

Key activities may include:

Program health assessment

- Program assessment with root cause and recommendations:
 - Program budget
 - Program plan and dependencies
 - Team effectiveness and governance
 - Stakeholder management and communications
 - Organizational readiness
 - Projected cost to complete

Program remediation plan

- Develop a plan to address gaps in program management and delivery, identifying where PwC PAS delivery frameworks can be leveraged (e.g. business requirements, PMO, architecture, quality assurance, change management, conversion strategy).
- Strengthen the governance structure and program instrumentation to create clarity to progress and future execution.
- Re-launch the program based on the new operating model.

How PwC can help

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Section 5

Select qualifications

Select qualifications

PwC has deep and relevant experiences in policy, billing, and claims—from design through implementation—for global, national, and regional insurers.

Selected engagements	System		Strategy		Mobilization/execution			Solution
	Line of business	Operational strategy	Assessment	Vendor selection	Mobilization planning	Execution	Vendor management	Buy, build
Global insurance carrier	Policy, claims	✓	✓	✓	✓	✓	✓	Buy
Mid-sized P&C insurer	Policy, billing	✓	✓	✓	✓	✓	✓	Buy
Top 3 insurance carrier	Policy, billing	✓	✓					
Large insurance company	Policy, billing	✓	✓	✓	✓	✓	✓	Buy
Top broker	Policy, agent mgmt	✓	✓	✓	✓	✓	✓	Buy
Top personal lines insurer	Policy	✓	✓	✓	✓	✓	✓	Buy/custom
Large life insurance company	Policy, billing, claims	✓	✓					
Large commercial P&C insurer	Policy	✓	✓	✓	✓	✓		Buy
Leading E&S insurer	Policy, billing, claims		✓		✓	✓		Buy
Super regional P&C insurer	Policy, billing, claims	✓	✓	✓	✓	✓	✓	Buy

Select qualifications

PAS transformation—Global P&C insurer

Issues

The client wanted to increase speed to market for insurance products and underwriting expenses. They required a solution that would improve competitive position within the property and casualty insurance segment by improving service to agents, achieve speed to market for tailored insurance products, optimize use of underwriting resources, and control policy administration expenses. Their current systems were not capable of supporting critical success factors, including outstanding service, creative products, competitive pricing, and appropriate administration cost structure. At project commencement, operating environment included multiple rating systems, multiple RQI systems, multiple and outdated operating systems, batch processing, multiple vendor support, and maintenance. As a result of these business and IT drivers, a phased approach was initiated for replacement of the legacy Commercial and Specialty Lines PAS.

Approach

PwC worked with our client to help in the following areas:

- Developed a business case including creation of and process management for a policy administration request for information (RFI), synthesizing of vendor responses, and an executive summary of key findings.
- Initiated repository of product, underwriting, agency, operational, and system-based requirements.
- Conducted stakeholder interviews across functions to gather and further refine business requirements, and allow for consensus among all stakeholders in the policy administration system selection process.
- Identified vendor products with eligibility to meet unique needs and requirements.
- Leveraged and expanded requirements repository and created a scoring methodology for RFI responses.

Benefits

- Created a multi-phased approach to system replacement that included collaborative effort across multiple corporate interests and work streams.
 - Enhanced current agency interface, underwriting, rate/quote/issue, and policy administration applications.
 - Created and identified strategic business and system requirements along with vendor selection criteria to determine ideal partnership benefits.
-

Select qualifications

PAS vendor selection—Global P&C insurer

Issues

As part of the client's overall growth strategy, the insurer was planning to enter the global consumer market in the Life, Accident & Health space. The existing policy administration system, while providing adequate support to the group business, did not have the capabilities to support the consumer business. There was belief among regional leadership that separate consumer systems across regions were the optimal solution to address the support of the consumer business. Numerous growth opportunities were being lost due to the absence of a system that could adequately support the consumer business.

Approach

PwC worked with our client to help in the following areas:

- Analyzed three vendors, identified as being able to support a global structure, the primary medium of analysis was system demonstrations during onsite vendor visits.
- Executed an eight-week, two-vendor proof of concept using products across two countries, proving key features such as internationalization and speed to market, while evaluating the vendors' delivery skills.
- Developed roadshows customized to each jurisdiction to emphasize the need for, and advantages of, a global system as well as the capabilities of the proposed vendor system.

Benefits

- Identified a right-fit technology solution to support the global growth strategy.
 - Refined the strategic vision of the global policy admin system and identified new capabilities.
 - Identified a working partner to implement the global consumer system.
-

Select qualifications

PAS transformation—National P&C insurer

Issues

The client desired to improve their efficiencies in the marketplace by achieving financial goals through providing products, tools, and platforms. The focus was on successfully implementing quality tailored insurance product deliverables designed to improve agents' and brokers' ease of doing business. This was to be achieved by improving the user experience and being responsive to producer needs, and by improving speed to market in delivering competitive rates and coverage to the marketplace.

Approach

PwC provided assistance in the following areas:

- Helped develop a policy administration system replacement strategic plan by gathering, analyzing, and documenting underwriting and products rules.
- Helped conduct a software evaluation and selection process and developed a six-year cost/benefit analysis.
- Helped assess existing administration systems and associated cost and constructed a detailed implementation plan.
- Trained 80 team members and developed a mentoring program that allowed staff to quickly become subject matter advisors on the vendor's product.
- Improved implementation support by providing PMO assistance.
- Supplemented existing staff for business services with an additional 30 professional resources for requirements analysis and test planning.

Benefits

- Removed legacy system constraints.
 - Provided ability to introduce new products and change existing products.
 - Automated business rules at new business and renewals.
 - Improved ease of doing business with customers and agents with less data entry.
 - Enhanced support for personal lines products including auto, property, inland marine, umbrella, and watercraft.
-

Select qualifications

PAS mobilization—National P&C insurer

Issues

The client was seeking business process and technology transformation—agency portal/interface, exception underwriting, policy administration, billing and collections, field premium audit, business intelligence, and claims. Goals included replacement of failing legacy systems and acquisition of new capabilities enabling increased growth through entry to new markets, decreased operating expenses, and increased customer retention.

Approach

PwC worked with our client to help in the following areas:

- Outlined business process improvement, system selection (RFP process), and business architecture.
- Defined key business strategies, capabilities to support strategies, and priorities in order to align business process and technology selection with strategies.
- Designed multi-phased request for proposal process including definition of high level business requirements, vendor identification and management, evaluation and selection process, and supporting tools.
- Elevated consequences of customized and manual processes and understanding of the benefits of configurable package applications.
- Facilitated recommendation and decision teams through vendor web demos, reference calls, RFP response analysis, on-site finalist proof-of-concept sessions, evaluation sessions, and final selection.
- Developed current-state process flows, leading-practice process flows, gap analysis, opportunities to enhance business process, and identification of critical management decisions—full customer lifecycle, including billing and collections.

Benefits

- Removed legacy system and architecture constraints.
 - Reduced/simplified business effort for IT changes.
 - Increased ability to incorporate new capabilities to improve speed to market.
 - Increased operational efficiencies and ease of doing business with customers and agents.
-

Select qualifications

PAS mobilization—Regional P&C insurer

Issues

The client was faced with a situation in which it was losing market share. Its business strategy lacked clear direction and its technological platforms had become archaic. In addition, the client was struggling to gain market share in the growing urban market segment. Typical time to introduce new products or make pricing changes was 12 to 18 months due to underlying technical limitations and process constraints, resulting in loss of market share to larger competitors. The client decided to look for a solution that would address speed to market, ease of doing business, and provide a more desirable risk model.

Approach

PwC worked with our client to help in the following areas:

- Program leadership around planning execution and stakeholder management.
- Architecture oversight and direction to enable implementation teams to develop the solution.
- Requirements development & quality assurance leadership, framework, and processes.
- Analysis of the impact on the book of business to reduce disruption to agency force.
- Conversion strategy for migrating existing policies to the future solution.
- Benefits realization and tracking framework to measure the value of the policy initiative.

Benefits

- Improved speed to market: Potentially able to react to competitive pressure in terms of new product, rate, and compliance changes in weeks vs. months.
- Increased operational efficiency: 30% expected improvement in agency and state office operations by decreasing underwriter cycle time & referrals.
- Controlled costs: An estimated one point reduction in expense ratio by decreasing reinsurance, consumer reporting, print/mail & system maintenance costs.
- Increased net premium: Potentially of up to 5% increase in net written premium due to consumer reporting consistency, recognizing claims and violations more accurately, and reinvesting efficiencies in attaining new business.
- Improved risk assessment: Through the fact-based predictive model, potential for the agency force to potentially be more competitive on the most desirable risks by guarding against adverse selection and therefore providing a more accurate premium to the customer at any given time.
- Improved ease of doing business: Potential strengthening of member relations by allowing the agency force to provide better services.

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“Fire, Ready, Aim... Don’t Miss the Point of a Policy Administration Transformation,” PwC FS Viewpoint, September 2011. www.pwc.com/fsi

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