

# *top* *issues*

**P&C insurance core transformation:  
Beyond the first wave**

*January 2017*



## P&C insurance core transformation: Beyond the first wave



*Insurance carriers are making an unprecedented investment in transforming their policy, billing and claims systems and processes. We are in a unique period where the convergence of aging legacy platforms, complex market dynamics, and a mature vendor landscape has made transformation a top priority for carriers of all sizes and profiles. We expect core system transformations will continue to be a top priority for insurers – regardless of size and product mix – in the coming year.*

Trends in the following three areas have been dominating our recent conversations with the industry:

- 1. Digital transformation and analytics:** Carriers are looking to extend their core platforms to develop the foundation for digital transformation and analytics. They have more ambitious visions for how these programs should drive growth strategies and are no longer satisfied with simply implementing a new platform and then searching for ways to achieve benefits in the post-implementation environment. Looking forward, a successful transformation should include broader strategies for 1) data analytics, 2) a positive digital customer and agent experience, and 3) underwriting efficiency.
- 2. Greenfield and Cloud:** Carriers are looking at alternate delivery approaches that align with their broader organizational visions. Some

of them have recently started to explore the business and architectural simplicity of greenfield and Cloud delivery scenarios.

- 3. Specialty and E&S:** An increasing number of carriers' core transformation focus is on modernizing platforms that process specialty and E&S products. We expect the next wave of transformation will impact specialty line carriers, which we categorize as non-admitted (E&S), Bermuda, and London market carriers.

---

***Insurers are looking for more than just up-to-date systems. They also want digital and analytics platforms that can help them realize the full benefits of a core transformation.***

---

## Digital and analytics platforms



*Several carriers have increased their investments in core transformation and recognize they need to add digital and analytic platforms in order to realize the following, additional benefits and capabilities:*

**1. Better 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.

**2. Better 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 can even open new customer channels. Carriers are looking to advance core system capabilities by customizing an agent and policyholder portal layer that enables users to intuitively interact with the system; 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. Billing transformation programs also typically include self-service capabilities that can improve the overall customer experience.

**3. Improved 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 (although this may entail an assessment and reconfiguration of the underwriting organization.) This is of particular importance in commercial and speciality lines transformations that seek to automate repetitive manual tasks but still require experienced underwriters to fully evaluate risks.

## Greenfield implementation



*Over the past two years, carriers have become increasingly interested in greenfield transformations. Such a transformation provides simplicity and gives carriers a unique opportunity to reinvent their business, IT, and organizational culture. This is in contrast to traditional transformation programs that unfortunately can “recreate the sins of the past” and implement relatively obscure business scenarios for the purpose of transferring the existing book of business.*

A greenfield implementation approach tends to be straightforward. It eliminates the need to integrate with antiquated legacy platforms and thus can lead to speedier delivery time. It also tends to require fairly simple product design, which makes it well suited for mid-tier carriers that are looking to leverage off-the-shelf vendor products.

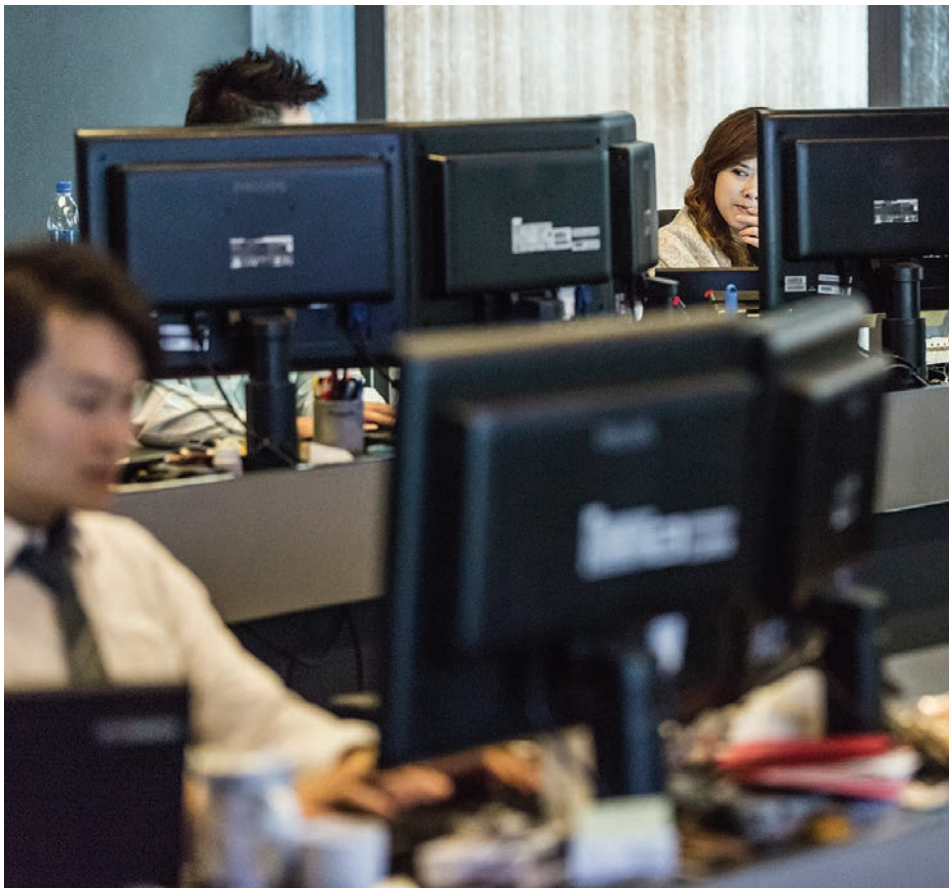
Some key advantages of a greenfield approach are its product and solution simplicity, increased speed to delivery, and the opportunity it provides the organization to break with the past. However, there are disadvantages if a carrier doesn't go into this kind of implementation with eyes wide open. For instance, it will limit book of business conversion capabilities in the near term, and can create some intermediate operational challenges by adding to the overall portfolio of applications in the near term.

---

***Greenfield offers design simplicity that can enable carriers to break from the architectural complexity of the past.***

---

# Cloud technologies



*Though cloud deployments are not new for insurance carriers, their scope has primarily been limited to productivity applications with minimal connectivity to the broader enterprise ecosystem. However, there are different expectations of the cloud today.*

The five key factors behind them are:

**1. Aging infrastructure** – Many carriers looking to modernize their core systems are discovering that their on-premise hosting environment is insufficient to support new core system technology, as well as customers' and agents' real-time "always on" expectations. Cloud solutions can meet many business and IT needs, and carriers now have a viable option to deploy new core systems in the cloud instead of investing in upgrading and maintaining new IT infrastructure.

**2. Expanding technology ecosystem** – Many small to mid-sized carriers do not have the capital or resources to support the complexity of a large transformation, but without transformations are constrained in their ability to respond to the market. Technology companies are beginning to offer complete, integrated ecosystems that include all the technology that runs core operations. This includes standard integrations of key ancillary systems (e.g. document generation, document management) and digital front-end portals and mobile, data analytics, underwriting desktops, and predictive modelling. Better yet, automated refresh capabilities keep product versions up-to-date.

## Cloud technologies



### 3. Need for new products and markets

– Insurers need to quickly respond to changing market conditions in order to compete in a very competitive landscape. Cloud core systems provide carriers the opportunity to quickly test and learn new business ideas – such as new products or expansion into a new market – with minimal investment.

4. **Need to facilitate product development and innovation** – IT is beginning to shift from being a provider of all technology services to a broker or orchestrator of business services and technology innovation. Creativity requires experimentation and, by nature, many experiments fail. Core systems in the cloud can help carriers reduce the cost of the experimentation and failure cycle, enabling them to greatly increase the potential for innovative ideas and solutions.

5. **Talent shortages** – It is difficult for many carriers to attract enough skilled employees, not least in infrastructure hosting and core development and testing. Cloud core systems alleviate the need for a full complement of IT staff because cloud solution providers already feature many of these resources.

---

***There now are complete, integrated ecosystems that include all the technology that runs core operations, and automated refresh capabilities keep product versions up-to-date.***

---

## Specialty and E&S



*Over the past decade, standard lines carriers have been challenged to improve profitability through reduced IT expenditures and policy acquisition costs. In response, these carriers have made significant investments in modernizing their aging policy administration platforms to improve automation and speed to market.*

We believe a significant share of the standard lines market now operates on a modern policy administration platform, with a final group of very large carriers starting to migrate to commercially off the shelf platforms over the next three to five years.

We believe the next wave of transformation will impact specialty line carriers, which we categorize as non-admitted (E&S), Bermuda, and London market carriers. Although they historically have been insulated from the deflationary pressures of technological

automation, we believe three factors have aligned that will accelerate their transformations over the next five years.

**1. Organic growth** – Over the past decade, the specialty market has outpaced industry growth averages and, thanks to a variety of market dynamics, we believe that this will continue. However, maintaining these increased growth patterns while managing their historically low policy acquisition costs will be a challenge for many specialty and E&S companies. They are likely to respond by increasing and improving internal underwriting staff, as well as through increased use of technology to automate lower value aspects of the policy placement process. For example, specialty carriers will automate back office and clerical work through new policy administration systems, while empowering their specialist underwriters to continue risk selection and pricing.



## 2. Technological maturity –

Commercially available policy administration systems have traditionally focused on standard market products, thus requiring extensive customization to meet specialty carriers' unique needs. For E&S and Bermuda carriers, we have seen products that now support multi-segment program policies, feature robust manuscript forms functionality, and can set IRPM factors at exposure and policy levels. For London market carriers, vendors are now supporting accelerators that enable core systems to interact with the Lloyd's and companies markets using ACORD XML standards, and integrate their back office systems with the relevant Xchanging market systems.

## 3. Organizational reporting/controls

– Many specialty carriers have difficulty providing sufficient data to their internal auditors and enterprise risk managers for the purposes of regulatory and group reporting. Modern policy administration systems enable underwriters, actuaries, and internal controllers to more effectively track and analyze the carrier's book of business. These systems support granular exposure, risk concentration, and premium reporting, thereby easing the reporting burden. Moreover, powerful predictive analytics platforms enable underwriters to marry internal and external risk models to their expert judgement, resulting in a clearer decision making and more effective management across the enterprise.

---

***New policy administration systems can help specialty carriers automate back office and clerical work, ease their reporting burden, and improve their risk-based decision making.***

---

# Implications



- Carriers have increased their expectations of core transformations and increasingly look to transformation to include robust digital and analytics capabilities.
- They also will continue to look at alternative delivery options in an effort to simplify their technology environment and their implementation roadmaps.
- Many transformation programs will be starting to include portal and data warehousing components, and off-the-shelf package solutions are well equipped to integrate those components with the core back office systems.

## Contacts

### **Imran Ilyas**

Insurance Advisory Principal  
+1 630 699 0657  
imran.ilyas@pwc.com

### **Josh Knipp**

Insurance Advisory Director  
+1 312 298 3044  
josh.knipp@pwc.com

### **Matt Hurlbut**

Insurance Advisory Director  
+1 312 961 6158  
matthew.hurlbut@pwc.com

### **Matt Wolff**

Insurance Advisory Director  
+1 312 298 3595  
matthew.wolff@pwc.com

[www.pwc.com/us/insurance](http://www.pwc.com/us/insurance)

At PwC, our purpose is to build trust in society and solve important problems. We're a network of firms in 157 countries with more than 208,000 people who are committed to delivering quality in assurance, advisory and tax services. Find out more and tell us what matters to you by visiting us at [www.pwc.com](http://www.pwc.com).

This publication has been prepared for general guidance on matters of interest only, and does not constitute professional advice. You should not act upon the information contained in this publication without obtaining specific professional advice. No representation or warranty (express or implied) is given as to the accuracy or completeness of the information contained in this publication, and, to the extent permitted by law, PwC does not accept or assume any liability, responsibility or duty of care for any consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this publication or for any decision based on it.

© 2016 PwC. All rights reserved. PwC refers to the US member firm or one of its subsidiaries or affiliates, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see [www.pwc.com/structure](http://www.pwc.com/structure) for further details.