

Modern Policy Admin Implementation Q&A Podcast Transcript

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GWEN LANNAMAN: Welcome. I'm Gwen Lannaman, VP Marketing at Camilion Solutions, and I'm here with Chad Hersh, Principal with Novarica's Insurance Practice and Susan Hutt, Senior Vice President, Services with Camilion Solutions. The focus of our discussion is trends and activity in the modern policy administration systems marketplace, and the benefits that insurers are getting from deploying these solutions.

I'd like to have each of the speakers introduce themselves. Chad, can you tell us a little about your background?

CHAD HERSH: Sure, I started out my career in IT and Management Consulting before going to an AIG subsidiary where I was the e-business director and then moved to Celent where I was a Senior Analyst for five years with a pretty broad coverage area that included core systems such as policy administration, advanced technologies and a lot of other areas. I have similar coverage here at Novarica where I'm a Principal in our Research and Advisory Practice for Insurers.

GWEN LANNAMAN: Thanks Chad. And Susan, how long you've been with Camilion and what is your background?

SUSAN HUTT: I've been with Camilion for about a year now, having started in August of last year. I suppose I would be described as an Enterprise Software Veteran, having been in the business for 25 years. Camilion is the fourth software vendor that I have worked for. I spent ten years at PeopleSoft as part of the Global Services Executive Team. I had the opportunity to run a variety of global practices over the ten years, giving me experience in running large services organizations, delivering complex enterprise solutions in many industries including insurance, and managing high growth practices.

GWEN LANNAMAN: Thank you Susan. Chad, can you talk a little about some of the business drivers you're seeing that are moving insurers towards implementing new policy administration systems.

CHAD HERSH: So, we see four major drivers that are influencing the decision to purchase new core systems, particularly those that are modern and those four things are speed to market, distributor and customer service, internal workflow improvements and data transparency. And, let me go through each of those in a little more detail. So for speed to market anything that makes the following items faster would be a speed to market improvement. Things like introducing new products, entirely new products,

changing rates on a product, modifying coverages, adding riders, minimums, anything along those lines, anything that helps an insurer bring a new product to market or modify a product quickly at least faster than their peers and preferably faster will help them avoid losing market share and perhaps even gain a new niche. Distributor and customer service is about making sure both your agents and your customers are happy with what you're providing them. So that might be 24/7 service online, on the phone, it might be the ability to take in electronic applications in multiple formats, it might be more compatibility with agency management systems to upload and download, etc., lots of different things that help agents and customers interact with you in a less painful way. Having your website support the customer self-service even if you're an agent driven carrier is becoming increasingly important for example. Internal workflow is about being able to change your business processes much more frequently and much more easily. Being able to quickly change the way work is routed, handled or approved, anything along those lines, to help drive better service and drive faster processing of everything. And then finally data transparency is about improving your underwriting, your service levels, targeted marketing, profitability analysis, everything that's affected by data. Having better access by more people in the organization to more clean data is just crucial in a lot of different regards.

GWEN LANNAMAN: Susan, what kind of implementations has Camilion done that helps insurers with speed to market?

SUSAN HUTT: The first implementations done for customers were specialty lines. However, we recently did back-to-back implementations across multiple states of two ISO lines for a customer. They had a speed to market initiative that we were able to support by getting them live with a new ISO line of business in just six months. We are very flexible in how we do rating. We let our customers choose. They can do their rating in our rating engine, a rating engine in which they have already invested, or by integrating with the ISO rating service – or they can do a combination of all of these. As I said, there's tremendous flexibility in our approach and on-going support of ISO lines. We are a preferred ISO Rating Service partner and have access to and support from the experts at ISO. Our ability to implement both specialty and ISO lines truly validates that our system can handle any line of business.

GWEN LANNAMAN: One of the biggest challenges for insurers in policy admin projects is phasing implementations. Chad, in your work with insurers, what kinds of issues have you seen in this area?

CHAD HERSH: That's right, one of the biggest challenges that carriers face is getting out of the old mentality of project management where a waterfall approach is strictly adhered to. And with a modern system, this isn't necessarily a critical aspect of it. What we find actually is you're far better off with a much more iterative approach and that can be reflected in the way the project is in fact phased. A lot of the phases can actually be done in parallel that were traditionally thought of as being done serially. So what I mean by that is you might be working on requirements initially but something that you could be working on while you're working on requirements is for example specing hardware and ordering hardware. I've seen a lot of projects that start with an eight-week pause while they wait for hardware to come in. Well, that's y'know, that's just silly. So what carriers need to recognize is that even project management methodologies have changed substantially over the last few years and are better designed to deal with modern systems than most carrier project methodologies. And phasing the implementation

correctly is a big part of that. The other critical piece about phasing is that you want the project to be broken into discreet chunks that can be measured for success along the way so you don't get to the end of the project and realize it was a disaster. If things are going wrong, you want lots of natural break points within the process to stop you but also to recognize value and to be able to say to the sponsors or to your executive committee, hey we've had our initial success and that can be very, very helpful to keeping the project on track and well funded.

GWEN LANNAMAN: Thanks Chad. How does Camilion's implementation methodology support these needs, Susan?

SUSAN HUTT: Our methodology is designed to take advantage of the benefits of a modern, highly configurable solution that is rules and tools-based. We use an agile methodology with an iterative approach to building out products. This approach allows us to receive feedback very early in the process that we can easily incorporate in the final solution, without any of the re-work that you would typically have with legacy, code-based policy administration systems. The system can start generating payback well before the project is ever done. We are able to quickly get high priority products into production while phasing in the less important ones.

GWEN LANNAMAN: Chad, for any insurer choosing a policy administration systems partner, implementation is always the biggest challenge. How do you see insurers evaluating potential vendor partners in this area? What kinds of concerns do they have?

Chad Hersh: Let me start with the second question first here. I think the concerns the carriers have are perfectly valid and that's that the most popular vendors are the ones who are obviously going to be doing the most work and so I think the number one concern is resourcing. Does my vendor partner or my potential vendor partner have the right number of resources, the right skills of resources, the right level of experience of resources, or are they going to bring people in and train them on the fly for my project, are they going to use a third party that's never been trained before. Do they understand the industry? Do they understand my business problems? So these are all very valid concerns. And so going back to the first question which is how do you see insurers evaluating potential vendors for fit, I think typically what we see is things like requesting individual resumes for resources that are going to be on the project, evaluating the size and breadth of the resource pool at a particular vendor, looking for formal training programs that the vendor has in place for their resources; basically a very formalized approach to growth. Are they professionalizing the organization as they go or if they're already a good sized organization and already professionalized, are they adding staff at an appropriate pace to keep up with the demand and I think that applies as well for other organizations as well, I think that goes without saying. But overall I think what we find is that carriers want to know who's going to be on their project, for what purpose, and for how long and they want to see a solid project plan before they even get started.

GWEN LANNAMAN: We've signed several large deals lately. What are you doing, Susan, to address staffing needs and the general organizational challenges that accompany rapid growth? Are you growing your services organization, or are you partnering to meet your needs?

SUSAN HUTT: As you mentioned, over the last several months, we have signed three carriers with over \$1 Billion in premiums. We have a strategy in place to both grow our services organization and to partner. We're partnering with Integrators who bring expertise in program management for our very large, complex projects that have multiple new systems being implemented concurrently. To extend the reach of our resource pool, we are also working with partners by integrating them on our projects. Eventually, they will have the expertise to implement Camilion's solutions with minimal help from us. Again, our goal is to be driven by our customers' needs and we are also happy to work with partners with whom they've had long-term relationships. That being said, we are growing our services team at a rapid pace. We are located just outside of Toronto, which is one of the premiere tech centers in North America. We have access to a very talented and experienced resource pool that includes both insurance and technology experts. Many of our employees have years of experience working for insurance companies and insurance solution providers. Having experience in managing high growth practices, I've also put an organization structure and disciplined process in place to accommodate the growth. With our growth and by extending our reach through partners, we have a network that supports all of our customer's needs.

GWEN LANNAMAN: Governance is also a key issue for insurers planning policy administration system replacement. Chad, what do you see insurers focusing on in this area?

Chad Hersh: Well I think policy admin is just exposing the underlying weakness with governance as it relates to implementing any kind of modern system at a carrier. The governance models in place at most carriers today are designed around a heavily, heavily waterfall-based approach where it's ok to have a steering committee meet monthly to discuss changes to the project plan or to the functionality in the system etc., whereas with today's modern systems and modern project management methodologies that are highly iterative, requirements may change daily or even multiple times in a day and the governance process just isn't well designed for that at most carriers; steering committees meeting monthly won't fly. And so I think the governance process needs to be revisited overall, to better adapt to the iterative approach and that may simply be that project management or program management offices are given much more authority and freedom to do what they need to do to keep the project moving forward or perhaps it's more of an interactive approach to governance where the committee discusses things less formally by email, by phone, whatever needs to happen to keep the project moving forward. When you have a three or four or five year project, maybe a week here or a week there it's not that big a deal, but if you're trying to get an initial pass out the door in six, seven, eight, nine months, the timeframes are very, very compressed and a week or two slow down is a very big deal. So I think carriers really need to work on their governance and we've certainly written on this topic and spoken on it many times and the reaction we get is very mixed. Some carriers are willing to make those changes and others are very resistant of them because they've been in place for so long. But hopefully over time they're going to quickly realize that that's simply hurting them and keeping them from getting the results and the payback that they want to get.

GWEN LANNAMAN: Susan, can you please explain how Camilion addresses governance challenges?

SUSAN HUTT: We address governance on multiple fronts. We start by having very experienced project managers that naturally bring strong governance to our projects. We supplement that experience by having a governance track in each phase of our methodology that defines mandatory reporting, deliverables and sign-offs. Each of our projects has a steering committee that either Monika Schmidt who is our Director of Field Services or myself sits on. Lastly, we do project health checks on each of our projects. They are done by our Project Management Office, so it brings an experienced, but unbiased review of the project with the goal of providing risk mitigation.

GWEN LANNAMAN: No matter how well you address implementation, staffing, and governance, implementing any policy administration system is inherently difficult. What are some of the challenges you are seeing in your work within insurers, Chad?

CHAD HERSH: So the bad news is there's really too many of these to address but I'll pick my top four here. I think the first one is the decision making process for selecting a system in the first place. I've seen carriers take 18 months or more to do this and that's just begging for disaster. We call that the "indecision cycle" and the primary issue with that is that by the time you select the system, there's a good chance your requirements have changed and you don't even realize it. By the time 18 months is up, often times the needs of the business units are different then they were or potentially going to be different and they're starting to recognize that. The second thing is going back to project management and governance. I see projects all the time getting shoehorned into an existing project management and governance process rather than those processes being adapted for the project, and that's another kiss of death for all the reasons we've already discussed. The third thing I see is a lack of adequate staffing and by that I mean both the number of staff that a carrier puts on a project but also the quality of staff that they use and dedicating the staff 100% to the project. And those last two are extremely critical and closely tied to the number of staff on a project and this has to do with knowing what to do to get there. In other words you need to backfill the positions of the people that are going to work on the project. We recognize that carriers are always stretched and they need their best resources but this is a 15 to 30 year investment so pulling your best people off for even a month or two or three is a small price to pay. So by backfilling their roles what you achieve is having your best people involved in the project defining what's going to be the system that is probably going to guide you for the next 15 to 30 years and you want those requirements to be ideal. The challenge there of course is getting those same people to think outside the box and think outside the processes that are in place today but that's often easier to do than having somebody try and figure out what your business is. So that's the third thing. The fourth thing is not being aggressive enough with project plans and timelines. Going back to the decision-making process where if you take 18 months to do something the requirements are going to change; you have the same issue with project plans and timelines that aren't aggressive. Most carriers want to make these things three, four, five year projects, when in reality they at a very, very bare minimum should be broken up into discreet chunks of no more than 18 months because requirements do change and so the first phase of the project ought to be the first line of business and the first few states and they need to get out the door so that people can look at the system and try the system in a real production environment and say this works for us, this doesn't work for us etc., so that the requirements for the next line of business and the next state can be modified and adequately addressed

in the next implementation or the next phase of the implementation. So I think an aggressive time line and an aggressive project plan the more compressed it is the less likely you are to have your requirements changing throughout the project.

GWEN LANNAMAN: What is Camillion seeing with its clients, Susan?

SUSAN HUTT: Most large carriers are replacing old systems and there's definitely relearning required to understand how to work with modern solutions. The biggest challenge they have with these legacy systems, of course, is an inability to have the speed to market they need to compete. Legacy systems do not provide them with the product agility and automated underwriting they need to get new or changed products to market quickly. We take the time at the beginning of every project to collaborate with our customers to ensure that they understand the capabilities of Authority Suite®. We teach them the best approach to optimize the benefits of automated underwriting and product agility through a series of workshops and by attending our training courses. As we work through our iterative approach to building out products, the benefits quickly become clear.

GWEN LANNAMAN: Thanks Susan, is there any advice you can give to a carrier preparing to embark on a policy administration replacement, Chad?

CHAD HERSH: I think the best piece of advice I can give is to create a realistic cost benefit model that's more of a business case. And what I mean by that is have a business case that looks realistically at things like soft benefits. Carriers hate to include soft benefits when determining whether to do a project or not. There's a certain amount of lunacy there. If you look at the benefits you achieve with a new core system in terms of productivity, in terms of flexibility to bring new products to market, in terms of avoiding revenue lost, looking at the opportunity costs of not putting in a new system should be a part of that business case. The traditional real cost benefit analysis that's entirely fixated on hard benefits just doesn't apply and if you do a correct business case that looks at all angles I think what you'll find that what's so critical about that is it allows you to show people the progress your making during the course of the project. And that's one of the biggest challenges that carriers face throughout these types of projects is how do you prove that you're moving forward and getting a payback on the system and I think this is the real critical thing is to be able to point to a business case even though it might include some soft benefits to show that you are in fact getting the benefits you said you would. That's probably the single biggest thing I see missing from almost every single implementation, everything else we've talked about is certainly critical but that's one that doesn't fall into a category if you will.

GWEN LANNAMAN: Susan, what would your advice be?

SUSAN HUTT: Yes, my advice to carriers would be keep an open mind to a new and more modern approach to product development, automated underwriting and policy administration; focus on an early win. Pick a line of business that will support that goal; dedicate a team to the project – a team that is empowered to make decisions and importantly, can make them quickly; get alignment between the business and IT; and last but not least ensure there is strong executive sponsorship for the project.

GWEN LANNAMAN: One final question for both of you. A key benefit, in theory, of a modern policy administration solution is that the long term total cost of ownership ought to be lower, since changes to the system ranging from functionality changes to core system changes should rarely if ever require that the carrier get assistance from the vendor unless they prefer to. Chad, do you see insurers realizing value in this area?

CHAD HERSH: This is an excellent question. I think if you look at how carriers view the cost of a system they look at it all wrong they're looking at it as a license fee, plus number of staff etc. really the total cost of ownership is something more of a net cost versus an existing system in my mind. What you need to look at are things like what does it cost you to make that functionality change? In terms of the time from a business analyst, the time from the IT side. Today you probably have a process where a business analyst looks for what kind of change needs to be made, documents it, sends it to IT, who writes up a tech spec, then does development, QA, testing, sends it back to the business side, for functional testing and QA, and this goes on and on. Having the opportunity to potentially have a BA make a change to the system or more likely just have the BA do most the work and then the IT folks either put on the finishing touches, or do the deployment or testing can dramatically reduce the cost of making a change to the system. And further, if you have that process today where the vendor is doing some of that work for you then the total cost of ownership may be dramatically lower. So I think the other thing is that you've got changes to the system that come as part of maintenance, that maybe you're not even making today because you've been off maintenance forever, it's a homegrown system, or they just take a long time because it's an old system. So you're not making certain changes that would allow you to do things that would make you more productive or allow you to do more new product introductions or whatever and there's a huge opportunity cost associated with that. And so when you look at the total cost of ownership you've got to look at what's everything costing me? Not just my IT costs for the system, not just my license costs, there's a whole bunch of other things that need to be factored in and that's a huge part of it for sure.

GWEN LANNAMAN: Susan, how does Camilion support customers post-implementation, and to what extent are they able to support themselves?

SUSAN HUTT: We are here to support our customers to the level and degree that they want and need. However, we have found that most customers don't want long-term dependency on a vendor and are looking to be self-sufficient as quickly as possible. Less than 10% of our staff is dedicated to customer support. Although a typical carrier is rarely 100% self sufficient, this should give carriers a sense of the level of support required for a modern tools-based policy administration system versus the traditional code based and more vendor managed solutions.

GWEN LANNAMAN: Thank you, Susan. We've been speaking with Chad Hersh, a Principal in the Insurance Practice at Novarica and Susan Hutt, Senior VP of Services at Camilion. Thank you both for your time today!