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THE TIME IS RIPE

Strengthen Your Core

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Targeting peak performance, insurers are getting core policy administration systems in top shape.

These days, every sport is stressing the importance of “core strength.” The core supports everything else in the human body, and in order for athletes to excel, they must take the time to keep those essential muscles and systems in top form.

Likewise, policy administration is at the core of any insurer’s business processes and systems environment. It wasn’t too many years ago we were reporting carriers just didn’t seem willing to invest the time and effort (and money) in strengthening, updating, or replacing core systems. However, a trickle of interest has grown into a stream of policy admin activity.

“The level of demand [for new policy admin systems] has been strong and steady,” reports Celent senior analyst Donald Light. “It’s been a focus for probably two, going on three years—to look at the big behemoth [job] of replacing systems—and we haven’t seen any slowing of that trend.”

In light of the market challenges faced by both the life/annuity and property/casualty sectors as well as the general economic downturn, one might expect interest in these large and expensive projects to diminish. Not so, says Chad Hersh, principal in the insurance practice at Novarica.

“Historically what carriers have done is to hunker down during lean times and not invest in IT, and especially not in core IT systems such as admin. So, like everybody else, we expected quite a slowdown, but we have been surprised and pleased to see the demand still is quite strong,” Hersh says.

Interest is strong among carriers of all sizes. “What’s surprising is even companies that don’t have the ‘deep pockets’ set out on very ambitious admin projects,” says K. Ram Sundaram, principal at X by 2, a consultancy that specializes in application and enterprise architecture.

Interest is equally strong on both the life/annuity and property/casualty sides. One reason behind the phenomenon is the simple

fact the size and length of admin projects tend to create a powerful momentum.

“The sheer time line of these [admin] projects is much higher than in other initiatives. We’ve had a few clients even joke these projects are generational projects,” says Sundaram.

For instance, American National wrapped up a six-year conversion project of five legacy systems—some dating back 30 years—to CSC’s CyberLife in 2007.

“We had three million policies, including blocks that had been acquired through acquisition,” says Meredith Mitchell, the carrier’s vice president of application development and support. “The data cleanup was the biggest challenge, and four years of that time was converting block after block of business.”

Also contributing to the momentum of admin projects are business drivers and strategic goals. Speed to market, flexibility, rules-based configurability, reduced maintenance costs—all are cited as benefits that lead to a calculable ROI.

“We had a client spending \$1 million a month on its mainframe and mainframe-specific applications for maintenance. Implementing a new server-based system cost \$5 million but eliminated that maintenance,” Hersh reports.

OFF THE SHELF

In the past, rehabilitation or custom development competed equally with the “buy” option in admin projects. Today, more carriers are choosing vendor offerings over other options.

“There is definitely a desire to buy vs. build,” Sundaram says.

The reason is what Hersh calls a “mind-boggling difference” in the quality of solutions. “The number of capabilities they offer is astounding to me. Also, there is



Steve Spray
CSU

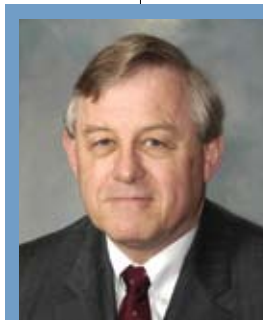
much more experience today with newer admin technologies and those type of projects, so the project risk is more quantifiable,” he says.

“Also, [modern policy admin systems] are not necessarily designed to be a 100 percent solution from the start. They’re designed to be accommodating and configurable, which keeps costs down,” Hersh says.

The upside for insurers is vendor solutions can provide the functionality and scalability they need as well as prebuilt data definitions and process designs within a configurable framework. But Sundaram cautions insurers should not underestimate the scope of the project.

“There still isn’t good recognition of the fact, particularly with policy admin, even though you have these engines that are well designed—actually almost like a policy admin toolkit—there still is significant work involved. In many cases, you’re changing your business processes to fit the tool, or you need to configure or customize the tool to fit your business processes,” he says.

In addition, a business boom for vendors can create an undesirable consequence for insurers. “We have seen a shortage of qualified talent,” Sundaram claims. “Some of the vendors are signing up as many clients as they can but lack the experienced staff to send who know the ins and outs of their own product or who have a deep insurance background.”



Gary Givler
Cincinnati Insurance

When Cincinnati Financial Corporation, parent company of Cincinnati Insurance, decided to launch its Cincinnati Specialty Underwriters (CSU) subsidiary, it sought a key capability in a policy admin system for the new company. “We wanted a real-time system,” explains Steve Spray, secretary of underwriting and marketing at CSU.

“Our underwriters for CSU can be anywhere—here, on the road, in an agent’s office. We wanted to give them the ability to produce a policy wherever they are,” adds Gary Givler, executive sponsor of the policy admin project at CSU and vice president of claims at Cincinnati Insurance.

That capability is an important differentiator, Sundaram says. “Getting the quote out there is what people empha-



size, but a quote is only a small part of the policy admin life cycle. There's still a huge struggle in terms of life-cycle policy management to feed applications into your system of record and move to a truly real-time policy transaction," he explains.

Although the project at CSU benefited from the fact the company had no existing book of business to convert, the insurer set an aggressive timetable for the project to align with its marketing objectives. **It signed a contract with Camilion Solutions in July 2007, and it needed to be ready to write policies by the end of the year.**

"Camilion's rules-based system, the tools, the framework; it gave us the best chance to be up and running on Jan. 1," Spray says.

Beyond business-unit configurability and rules-based workflow delivered by the system, a critical functionality was real-time policy delivery. "We can deliver a specimen copy of the policy electronically with the quote, including coverage terms and conditions," Spray says. "If the brokerage says to go ahead and issue the policy, we can then issue that in real time and deliver it back to the agent via PDF."

The project met its time goals, taking just 129 days from start to finish, and the company issued its first policy on Dec. 31, 2007. Achieving the rapid deployment required tight control over project priorities and avoiding any scope creep. "Co-location of inside and outside teams and resources was critical as well as strong partnerships with the vendor and business units for testing and defect discovery," Spray says. "Any slippage we experienced was limited to days rather than months."

Spray credits the system with helping position the company to achieve its market goals to date. "We wrote \$9 million in business in our first nine months, despite missing the bulk of the Jan. 1 new business cycle. The response from retail agents to the real-time delivery of quotes and policies has been tremendous, and we believe this year we can take full advantage of the Jan. 1, 2009, renewals."

STARTING OVER

Unlike CSU, American National did have to deal with legacy systems in its policy admin project. Over its 100-plus years in business, the company had acquired several other carriers and the systems that came with them. "On the tech side, we had

gotten out of date," Mitchell says. "Our systems were a bit of a 'black box.'"

American National's story is one shared by many insurers: Its legacy applications constrained the company from bringing new products to market quickly. "With the hodgepodge of systems, it took a whole lot of IT work to put up a new product. Because all the tables in these admin systems were Assembler tables, and a lot had been hard coded, they were missing the nicety and the architecture where business could take control. And with increasing regulation and compliance, it was everything we could do to keep these systems running," Mitchell says.

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—Donald Light, Celent

American National considered wrapping or modernizing its admin platforms but ultimately decided on consolidation via a rip-and-replace path. "There is an efficiency play within IT when you do platform consolidation," says Celent's Light. "When you can make a big dent in the number of policy admin platforms you have to support, your IT dollars will be able to be redeployed."

Mitchell reports CyberLife's mainframe-based scope and scalability were essential to handle the company's business volume, while a Java-based front end, which posts ACORD-standard XML transactions to the back-end CICS/DB2 system, represented a significant upgrade for users. "We have the platform advantages of running on a mainframe, but we still have a Web-based system using modern technologies that are easier to support," he explains.

American National opted to convert business by posting data from its legacy systems as new online transactions to CyberLife, rather than going the traditional ETL route. That had the advantage, according to Mitchell, of reducing data errors; however, routines then needed to be written to adjust issue dates back to original inceptions and add policy history. Installing the system itself took two years;

converting policy data took four.

For American National, the long journey was worth it from both an IT and business perspective. Mitchell points out a key business benefit comes from the core admin system's integration with CSC's rules-based Virtual Product Modeling System (VP/MS), which lets actuaries define and test the calculations needed to process the product on the admin system without IT involvement. Additionally, the embedded CyberLife Product Definition package (CPD) enables business users to take control of new product definition and decrease time to market.

"On the business side, it now can control its destiny. With the old systems, business spent time writing requests to us, and programmers made changes. Now, the business can work with VP/MS to do the changes itself. A graphical interface in CPD lets business design a product, starting either from scratch or with a clone of an existing product, and it populates the tables automatically," notes Mitchell.

That is an essential value proposition of modern admin systems, Light says. "Product configuration, particularly [creating] products that are just variations of existing products, can be done in a pretty fast and straightforward way, and the system marches through state-by-state variations," he indicates.

From an IT standpoint, American National has freed itself from the ball and chain of maintaining multiple systems written in arcane code. "IT is off the critical path, and we're not as worried about losing skill sets and product knowledge with the 'retirement bubble,'" Mitchell says.

American National has continued to extend the reach of the core platform. It currently is converting its Lincoln Underwriting System to CSC's nbAccelerator workflow system, which is integrated with CyberLife, and it is in the process of deploying an output system from Docucorp.

"Business is taking control of what all the product output looks like and is doing a whole lot of work that used to be in the IT area," Mitchell says.

"Improving underwriting capabilities had been more a focus on the P&C side but has moved into new-business life underwriting, as well," Light says. "Whether it's creating an underwriting desktop or building in rules and workflow and some level



of task automation to make the underwriters more efficient and the underwriting decisions more visible and transparent to management, that's an area to which people are paying more attention."

American National's work to extend the policy admin platform reflects a continued trend among carriers of component-based enhancement. That process has taken place at the Church Pension Group, which provides a variety of pension and insurance products to Episcopal churches and their employees.

In 2002, the Church Pension Group deployed Fiserv's ID3 policy admin system to support its group medical, group life, individual life, and annuity products. Over time, the company wanted to extend the functionality of the platform, and it has completed three key projects recently to achieve that objective.

First, the company sought to enable plan administrators to manage more directly their own plans. Previously, Church Pension Group had a Web site plan administrators could use to maintain employee rosters and plan selections, but this site was not integrated with the back-end ID3 system.

In 2007, Church Pension Group deployed a new integrated plan administration Web site to support the maintenance of group products. "In the 'old days,' we used to have to reenter data from the Web, or [administrators] used to have to call us and tell us what they wanted, and we had to do it for them," recalls Chris Thorman, director of software development.

"Now, [administrators] can get information about their plan and the people on it, which is queried live from ID3. If they want to change anything, they click on the field and change it, and it's changed in the database," Thorman says. "We've evolved."

Church Pension Group's own customer service staff uses the system, too. "There may be some pieces they have to complete directly in ID3, but the majority of changes they need to make they can do from the new front end," says Thorman.

Second, the insurer moved the billing function from the admin system to an enterprise content management platform from Interwoven. Church Pension Group developed a Web service to query billing data for a requested client and present an electronic statement to the plan administrator for approval via the Web front end. Once a statement is finalized by the plan administrator, Interwoven manages the statement production. That approach provides more flexibility, Thorman explains.

"We can take more control over the presentation of statements."

—Chris Thorman,
Church Pension Group

"We can take more control over the presentation of statements. We still process them in batches, but we now also can process a single statement. We go through an HTML pipeline so [administrators] can download and view forms in the Web front end, as well," he says.

Last, Church Pension Group created a client-engagement Web service that feeds activity data directly to its Oracle CRM system. Every transaction initiated via the plan administration Web site becomes a case record in Oracle for tracking and compliance purposes. If a Web transaction requires action, or if a service request is made by an administrator via the Web, the Oracle case record becomes an action item for a CSR.

"There are two key benefits to that integration from a CRM perspective," says Martin Hossfeld, vice president of IT operations at Church Pension Group. "First is the tracking and control of transaction activity. Second is efficiency. Because we're a multicompany entity, and client engagement is a shared service, having one tool to see all activity across touch points and one queue [for CSRs] is a big benefit."

Despite the open architecture of the systems involved, creating the integrations was challenging. "Our needs are extremely

simple. We have eight to ten transaction types we needed to do. But contorting those to fit into the ACORD standard was painful. It took a while for us to map our needs into the required schema because the standards were new to everyone," Thorman says.

Yet with the integration completed, Church Pension Group's efforts have had a marked impact on both customer satisfaction and internal efficiencies, according to Denise Blankinship, vice president of information and data support.

"Internal staff uses the plan administration Web site to set up or terminate group medical and group life policies, which has resulted in a significant savings in the amount of time to create a new policy because they no longer have to go through multiple screens to enter policy data. Also, the ability to view the invoice online helps internal accounting in the whole account reconciliation process," she says.

"Our external customers are very pleased with the new and improved, integrated Web site," she adds. "They benefit from being able to process changes themselves, and because changes are now real time, their monthly statements are more accurate, and it's easier for them to reconcile statements, as well."

MORE CORE EXERCISE

Despite the continued market challenges insurers face and a volatile economy, Hersh expects interest in policy admin to remain high.

"It used to be the systems getting cut were core systems but not anymore. I expect to see the same level of activity we've seen in recent years," he says.

"More packaged solutions than ever out there today are modern, rules and tools based, so they provide more value than they did in the last downturn," Hersh remarks. "Then, it was replacing COBOL with more COBOL. Now, insurers are talking about automating and achieving real speed to market, which are more essential than ever in the current downturn." ■