Are legacy systems or legacy mindsets your digital transformation nightmare?

Large-scale digital transformation in the insurance industry
The insurance industry is evolving rapidly, with many innovative ideas and technologies increasing transparency and enhancing customer experience. However, most insurers still operate their policies, commissions, claims and finance systems on mainframes, making it difficult to harness emerging technologies.

Without fast, large-scale digital transformation, insurers can no longer remain competitive. It’s time to seize the opportunity and move to an agile, digital operating model.

**Legacy core applications are reaching the end of their life**

Although mainframe systems are known quantities, which have long provided a stable environment for mission-critical processes, they are highly inefficient in the present business environment. Insurers still running legacy systems cannot move fast enough to compete in the digital age as such technologies could act as a heavy anchor holding back progress.

Expensive legacy systems, with their associated friction costs, make it challenging to:

- Integrate with rapidly advancing new technologies to catch-up with digital trends
- Develop new, personalized insurance products with competitive pricing
- Reduce the cost to serve and optimize supply chains

**Incumbents can’t keep up with digital competitors**

Digital competitors in established markets have lighter IT architecture that allows them to release innovative products and efficient customer tools more quickly and efficiently. These new entrants are already providing customer self-service through real-time application program interfaces (APIs) and seamlessly integrating with new e-distribution partners. They are using automation as well as frictionless, straight-through processing to give customers instant responses, hassle-free applications and same-day claims settlement.

New entrants are also able to use improved data sets and advanced analytics to respond to changing customer needs and market forces. Modern, flexible business tools, coupled with agile business thinking, enable test-and-learn and just-in-time deployments – breaking the mold of traditional IT development life cycles. The resulting agility also supports better customer service and experiences, improved risk selection, and faster penetration into general and niche markets.

**It’s time for insurers to adopt new advanced technologies in their core systems**

As a matter of urgency, insurers in established markets must start replacing their core applications with an agile, digital infrastructure to support rapid product releases, improve operational performance in all areas and reduce costs across their business models.

Incumbents must transform their core insurance operations by moving away from their legacy and end-of-life applications, and transitioning into modern technology platforms. In doing so, IT departments will also gain refreshed skill sets and provide greater opportunities for staff, increasing engagement and retention.

**How can we make these highly complex transformation projects more successful?**

Despite understanding this imperative, many insurers are hesitating to embark on a digital transformation journey. They fear the sheer complexity of the implementations required and the scale of organizational change needed to make the transformation successful. Some have already tried and failed to replace their legacy technologies because of various factors, including the complexity of operations, limitations of other systems or failure to rethink offerings to match new capabilities.

Transformation projects are also hampered by:

- A lack of system knowledge as the mainframe has been running for decades and its original architects are long retired
- Heavily customized integrations and configurations

Often, these issues result in either failed programs or extensive budget and timeline blowouts.
What are the keys to success?

A successful implementation of digital transformation depends on getting the solution architecture and vendor right, and having skilled people headed by an experienced program leader. It also requires:

⇒ **A well-defined business case** – The case should have clear objectives beyond operational efficiency savings. For example, in a claims transformation, insurers can also expect better fraud outcomes and leakage control.

⇒ **Executive support** – Digital transformation requires a strong leadership to articulate the need for change and create a “burning ambition” across the organization to get behind the project.

⇒ **The business driving each initiative** – Key decisions should be chaired and driven by business operations – not IT. This is critical to achieve buy-in and to ensure that the new digital infrastructure supports strategy execution. For instance, when a large French insurer in Asia implemented an end-to-end claims transformation, decisions were made by a specially convened forum with representatives from all key business functions. The forum signed off on all aspects of the project, including an evolving scope.

Do we need a “big bang” approach?

For some insurers, a “big bang” approach to implementation is the fastest way to achieving their digital ambitions. However, many prefer an agile approach. With modern technology platforms, we can help implement large transformation agendas in smaller, manageable chunks, delivering quick wins without major disruption – wins that help get and keep the business on board.

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Case study

A large insurer in Asia recently implemented end-to-end claims automation to increase efficiency and allow experienced claims operators to be dedicated to higher-value tasks. In addition to delivering immediate savings, automation allows the insurer to collect and harness claims data to support real-time decision-making. For example, the insurer uses this data to offer customers better products and services at the renewal stage.

Results:

$20m annual savings

3%–4% in fraud

5% in claims leakage

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Give your digital transformation implementation the best chance of success

EY teams are helping insurers across the region to undertake large-scale digital transformations. We can help you:

⇒ Define your business case for legacy replacement

⇒ Lead legacy system implementation programs

⇒ Run IT platforms as a managed service
EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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