



Building a better
working world



Transformation through the cloud

How insurers can leverage proven
approaches to reduce costs and improve
performance

This paper will:

- ▶ Outline a number of key business challenges cloud solutions can successfully address
- ▶ Present a range of questions insurers should ask as they begin to shape their transformation road maps and cloud-based initiatives
- ▶ Describe the role of managed services in ongoing production support as a means to generate more value from investments in cloud-based solutions

Executive summary

The property and casualty (P&C) insurance industry has traditionally been slow to adopt new technologies. Cloud-based platforms and digital business models are prime (and recent) examples of this hesitancy. Risk-averse cultures and heavy regulatory scrutiny often underlie this behavior.

Today, however, the reduced costs and performance benefits associated with moving applications and processes to the cloud have become too great an incentive for insurers to ignore. A December 2014 study from industry analyst Ovum found that approximately a third of all insurers have either deployed or are testing cloud-based (Software as a Service, or SaaS)

systems for critical business functions, including the heart of the company: policy administration and claims management.

The question is no longer whether insurers should move to the cloud, but instead when to move, what to move and how they should move. As for the first question, “sooner rather than later” seems to be the consensus. The Ovum report states, “All insurers must plan to adopt SaaS within the next 24 months.” Again, the proven value of the cloud means it should be a “here-and-now” priority for insurers, rather than part of a vaguely defined or futuristic technology vision.

State of the cloud in insurance

According to Ovum:

- ▶ 59% of insurers globally are fully deployed, in trials or planning deployment with cloud-based solutions – and only 20% are not considering any cloud-based solutions; these percentages are similar across all sizes of insurers.
- ▶ The three most common uses of cloud-based solutions are customer service, policy administration and regulatory compliance.
- ▶ 68% of insurers will significantly or moderately increase their budgets for investing in the cloud.
- ▶ The expected benefits, in the eyes of insurers, are support for geographic expansion, ease of support for new technology, reduced need for internal development and reduced IT costs.

Why companies should embrace the cloud: overcoming business barriers and challenges

Increasing adoption of cloud-based tools is not by itself a sufficient reason for P&C insurers to fall in line. In other words, “just because everybody else is doing it” is not a business case to justify migration to cloud environments. Instead, the value proposition starts with a range of critical business challenges.

First and foremost, carriers face ongoing operational cost pressures and rising total cost of ownership for their technology. Legacy systems continue to consume valuable financial resources without giving P&C insurers the computing firepower they need to transform operations and deliver the quality experiences today’s policyholders expect. Small and mid-sized carriers in particular may struggle to afford the capital outlays and operational expenses associated with implementing modern technology from market-leading vendors. The situation is exacerbated with traditionally high costs for product licenses, infrastructure, implementation and ongoing application management.

Then there are needs for better support functions across an insurer’s value chain. Many in-house or homegrown solutions for document generation, document storage and reporting are not sophisticated enough to keep pace with the business needs of small and mid-sized P&C carriers. Some large carriers also may have struggled to integrate those functions with their core operational platforms, thereby missing out on opportunities to incrementally improve process efficiency.

The business case for cloud-based transformation often includes:

- ▶ Lower total cost of ownership for key systems
- ▶ Less disruptive technology implementations and support models
- ▶ Increased speed to market and ability to implement technology and process changes faster (e.g., product launches)
- ▶ Increased organizational agility and operational flexibility from modernized systems
- ▶ Reduced risk of technology obsolescence

Even if insurers have the budget to invest in advanced systems, they may be concerned about the burden implementations can place on their business and IT teams. For small and mid-sized carriers, traditional (on-premise) models for implementation and support are not realistic, given their limited human resources in IT. All carriers are looking to eliminate or reduce fixed costs, so adding staff to support implementations is not a palatable option. Product license and product support cost fees are a similar issue.

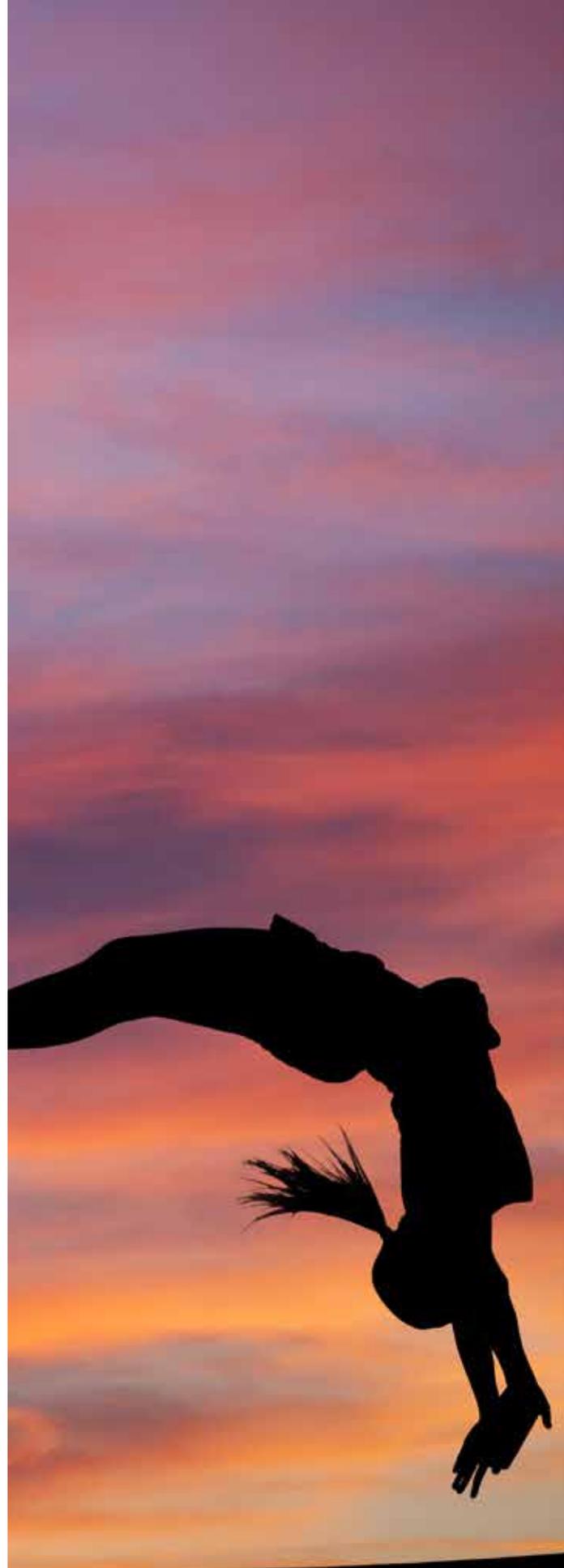
The bottom line is that many industry executives and industry analysts recognize the need for advanced technology platforms and better core operational systems. It is just as clear that insurance-specific technology has matured to the point that critical processes and entire functions are now available on an “out-of-the-box” basis. In other words, industry-leading tools are accessible to all types and sizes of carriers and can be mapped to company-specific processes and implemented rather quickly, provided robust program management is in place.

The end goal with new platforms is to reduce the total cost of ownership, not just to minimize implementation fees, but also ongoing application maintenance and regular upgrades. This is the heart of the business case for cloud-based systems. As the Ovum report highlights:

“Cloud technology can play a critical role in supporting an insurer’s overall business goals and in supporting its wider ambitions ... [M]ost cloud strategies in the insurance industry today need to be more comprehensive and must more fully encompass the potential for organizational transformation.”

Those “wider ambitions,” like overall business mission and future-state vision, will vary greatly by insurer. The ability to develop and launch products faster is likely to be of great interest to many carriers. For some, improved claims management performance (in the form of improved financial performance and improved customer service) may be an important component of the business case for modernizing legacy platforms, while increased organizational agility may be another priority.

Cloud-based solutions, with their rapid implementation cycles, can help insurers realize business benefits faster, while also providing the foundation for ongoing regular continuous improvement without the higher costs and resource consumption associated with on-premise applications. Further, cloud environments may enable the company to focus key resources on business and operations, such as providing best service, launching new products and claims adjudication rather than relatively low-value administrative tasks. The bottom line is that platforms must establish a foundation to support profitable business growth. Strategic planning and return on investment (ROI) modeling will clarify the parameters and milestones on the path ahead.



What to migrate: the core in the cloud

Migrating applications and processes to the cloud is not a new notion. Many insurers have adopted such capabilities, usually for “back-office” IT functions (such as email and business continuity). But, increasingly, core operational systems – policy administration, rating, claims and billing – are well-suited for cloud-based models.

It is important to note that pre-configuration and integration based upon industry-leading practices are of great interest to all carriers, but especially small and mid-sized carriers, who typically are willing to trade some “individuality” for reduced implementation time and costs, as well as lower support costs.

How to move to the cloud: getting to successful implementation and support

To realize these benefits, implementation approaches must be holistic and strategic – taking into account the full technology life cycle and the need for organizational transformation. It is critical that operational executives view the cloud as a means to an end – not an end in itself. To put it another way, the goal is not simply to implement new technology or establish a new operating model for key functions; rather, it is to adopt new technology and improve processes in ways that lead to tangible performance improvements and the achievement of core business objectives.

The life cycle extends from strategic road mapping and ROI modeling, through design, testing and deployment, to enhancements, upgrades and production support. Cloud in this sense is not a single event or project, but instead becomes “a way of life” in managing insurance operations. For all of these reasons, a proven implementation approach and pre-configured solutions are critical to success.

The importance of change management is worthy of emphasis. Too many insurers have learned the hard way that the change management practices – the “soft stuff” – is critical for realizing substantive business value. Change management strategies, stakeholder readiness assessments and engagement plans, robust training and communications plans and the like often make the difference between mediocre and outstanding ROI.

Based on EY’s analysis and the experience of previous adopters, 30%-40% savings in total cost of ownership (TCO) can accrue over the course of 10 years:

- ▶ **Implementation:** due to pre-configured assets and conformant solution, with many pre-built integrations, such as test scripts
- ▶ **Ongoing production support:** resources are shared across conformant solutions, rather than requiring dedicated internal resources
- ▶ **Upgrades:** included as part of the solution, with savings resulting from alignment to standards
- ▶ **Infrastructure:** savings due to cloud and virtualized infrastructure and the flexibility to scale incrementally as business grows

Lastly, insurers must also have a well-thought-out plan for ongoing enhancements, technology upgrades and production support after the initial deployment. Because product portfolios, business processes and regulatory requirements will continue to evolve, insurance technology platforms must be designed and deployed with flexibility in mind. The environment should be configured so that new components can be added seamlessly, with extensive reuse of existing assets and artifacts. That requires striking a balance between meeting current challenges and instilling appropriate flexibility for the future.

The good news is that carriers have many options when it comes to managing their costs and designing the right cloud-based model – from capacity-based to performance-based contracts featuring service-level agreements (SLAs) and other incentives and targets. Shared services and offshoring are two other levers insurers can use to find the right level of flexibility and predictability in managing overhead.

To design the optimal cloud-based environment for their needs, insurers must address a range of critical questions

- ▶ What's the right level of standardization and alignment with out-of-box product capability to reduce total cost of ownership?
- ▶ How do you mitigate the risk of product obsolescence and provide solutions that can be upgraded as technology evolves?
- ▶ What is the plan for incorporating next-generation capabilities and technologies, such as telematics and sophisticated fraud analytics, in a cost-effective way?
- ▶ Which functional processes and systems must be integrated with the new platform first and what are the integration dependencies?
- ▶ How can improved digital tools and experiences, such as customer and agent portals and mobile apps, be established and expanded to help strengthen relationships?
- ▶ What is the optimal contract structure – capacity-based, performance-driven, SLA-based, e.g. – with technology solution providers?

Looking forward: beyond core operations

In thinking about cloud-based solutions, it's critical to take the long-term view and recognize the need to incorporate new technologies and capabilities that are on the horizon. The impacts of innovations such as telematics, portal technologies, mobile apps and advanced analytical tools are affecting insurance operations from marketing, sales and service, to actuarial and underwriting, to claims. The move to cloud solutions can be the first phase of a longer-term journey to highly evolved, next-generational business models. Thus, initial implementation plans must be thought of in the context of a road map for the future.

The bottom line: it's about transformation, not just technology

There is consensus in the insurance industry that the time has come for widespread adoption of cloud-based operating models and technology environments. Executives charged with planning and overseeing cloud-based programs should embrace the industry's traditional risk-averse (or risk-aware) mindset and embrace a strategy and execution plan that are based on proven assets, accelerators and program management techniques. Not only does such an approach reduce project risk, it can greatly enhance the likelihood that projected ROI will be realized, and realized sooner. For that reason, in making the move to cloud-based models, insurers must think in terms of transformation and not just technology, as well as finding the optimal solution for their unique needs and objectives.

EY Insurance Nexus™

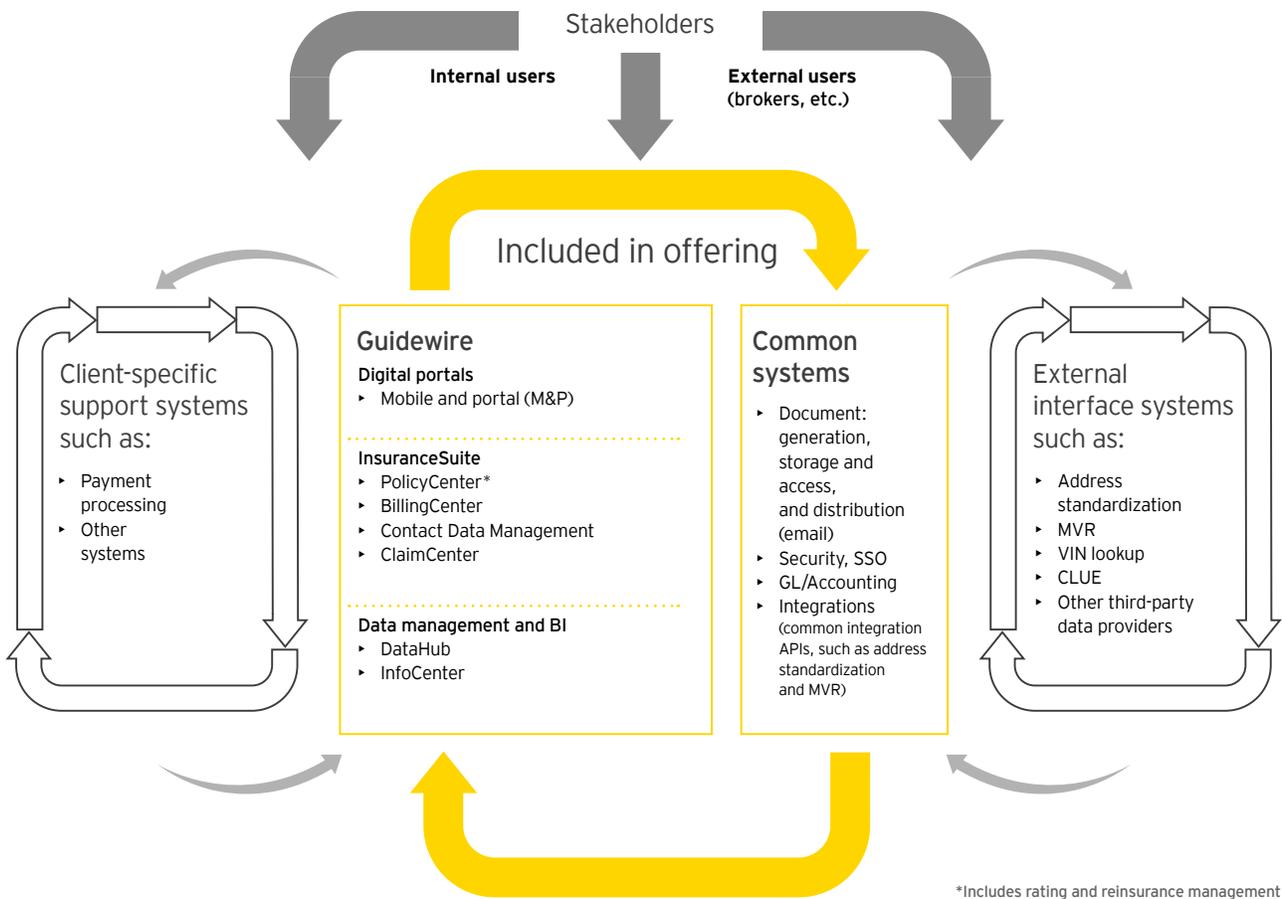
Introducing EY Insurance Nexus

EY Insurance Nexus is a complete strategic offering for moving core insurance operations to the cloud. Initially tailored to the specific needs of small and mid-sized insurers and developed in conjunction with Guidewire and a diverse set of insurers, EY Insurance Nexus features:

- ▶ Fully integrated Guidewire InsuranceSuite – ClaimCenter, PolicyCenter, BillingCenter and ContactCenter, DataHub and InfoCenter
- ▶ Pre-built standard integration application programming interface (API) (geocoding, address verification, general ledger (GL), etc.), pre-configured products, processes and lines of business
- ▶ Systems to support the full insurance life cycle – document generation, storage and access, distribution, security single sign-on (SSO), operational reporting
- ▶ Cloud-based hosting and infrastructure services with separate instance for each carrier (providing flexibility to differentiate with data segregation from other clients)

Potential benefits from EY Insurance Nexus

- ▶ Rapid implementation cycles – typically under one year – with less burden on carriers' business and IT resources
- ▶ Lower total cost of ownership with applications managed and hosted by EY
- ▶ Increased access for small and mid-sized carriers to business and technology platforms that historically have only been available to large carriers, as well as access to advanced insurance products based upon Guidewire, EMC, SAP and other leading technology, with support from EY
- ▶ A strong foundation for adding advanced digital and analytical capabilities



EY Insurance Nexus provides:

- Fully integrated Guidewire Suite Version 8 (Claims, Policy, Billing and Contact Manager)
- Pre-integrated Guidewire portal and operational reporting (additional pre-configured 90 reports)
- Pre-built standard integration API (Geocoding, address verification, GL, etc.), pre-configured products and processes
- Common systems supporting full insurance life cycle
- Hosted on the cloud
- High “conformance” percentage: 90% against baseline solution

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Key contacts

Ashish Garg

Executive Director
Ernst & Young LLP
ashish.garg1@ey.com
+1 408 685 1256

Michelle Lynch

Senior Manager
Ernst & Young LLP
michelle.lynch@ey.com
+1 617 909 3400

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