A solid core – achieving legacy transformation without the pain – really!!!

No pain, no gain, they say. However in the case of legacy transformation can evolution really happen painlessly?
The back-end technology infrastructure in most large and mid-sized insurers is a maze. It is often a complex spaghetti of multiple core systems, many aging, many creaking at the seams and generally acting as a limit to business growth. The average global insurer has between 5 and 14 core systems installed. Some of these are home built and some acquired but often linked together with aging application programming interface’s (APIs) resulting in such a complex infrastructure that any ideas of a rip and replace strategy is just too large to compute. This is true of all established economies with a long history of insurance. Our research in the Africa market indicates that the long established insurers have legacy core systems implemented that don’t address the needs of the new landscape and hamper business growth opportunities, contrasting with the new micro insurance businesses that grow from a new cost and technology base.

New insurance businesses can start with a clean sheet of paper. Start-ups can implement the latest technology platforms that are flexible and adaptable to change. They can operate through online or multiple channels and by doing so will potentially be more competitive in the market. New insurance businesses are able to launch products faster, add distribution channels on the fly and provide their customers with the journey that they want seamlessly. On the other hand organisations with legacy systems need to balance their lack of competitiveness versus the pain and cost of implementing a new core system. The benefits need to be proven to be very compelling. What we do know is that all insurance businesses are looking to drive sustainable, profitable growth and therefore need to find a way to do this as painlessly as possible.
Laggards or leaders

Where does this leave the big and mid-sized, historically successful, global insurers? Struggling to modernise, struggling to take advantage of the value in their volumes of data, struggling to compete with new flexible customer-focused products, struggling to bring on new distribution channels and struggling to adapt to changing legislative requirements.

And the same applies to insurers. This report looks at the technology challenges of the established insurance companies and how some technology solutions are able to help them to evolve without complete replacement, therefore enabling them to remain competitive under growing pressures from all directions.

The 2012 PWC Report\(^2\) where senior executives from 29 insurance companies were interviewed, identifies the proliferation of legacy systems and the impact of data tied up in them as a major technology weakness.

A recent article by McKinsey & Company\(^3\) highlights the role that technology has in changing the basis of competition in an industry. It also asks whether business plans reflect the full potential of technology to improve performance and whether installed technologies improve the operational and strategic agility of the business. All of these questions should be asked by the Senior Management teams of large insurance companies to gain an understanding of where their technology platform compares to the competition both existing and emerging. The report concludes that there is a need for the wider business to understand the benefits.

“Gartner research suggests that at least 40% of global financial institutions are currently undertaking major core banking transformation projects. Of these projects, 85% fail. Such statistics are not exactly a recipe for career longevity.\(^1\)”

And the same applies to insurers. Some technology solutions are able to help companies evolve without complete replacement, therefore enabling them to remain competitive under growing pressures from all directions.

RM Insurance, a division of Old Mutual Group, is one of Zimbabwe’s leading short term insurance providers offering personal lines insurance products

As a long term provider in an increasingly competitive market, RM was limited by the legacy IT infrastructure that was in place that did not easily enable the addition of the web channel. However in order to compete they recognised the need to allow customers to manage all their insurance needs online – from quote to claim.

The challenge was too quickly and cost effectively adds a web channel that integrated with existing back-end processes and systems. The result was a solution that delivered better customer service whilst reducing operational costs and met customer self-service requirements. RM was able to modernise without the need for a full legacy transformation project.

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\(^1\) Gartner Executive Interview with Commonwealth Bank June 2012.
\(^2\) Strategic and emerging issues in South Africa Insurance June 2012.
\(^3\) The do or die questions boards should ask about technology 2013.
Additional research from Ernst & Young highlights the need to invest in core technology to enable growth, improve operations and risk management. They state:

"The introduction of more complex products and data analytics, in combination with risk-based regulations are pushing legacy systems and processes to the limit. Consequently insurers must invest in technology upgrades."

According to Ernst & Young, legacy systems are unlikely to produce the comprehensive data needed to effectively evaluate company risks and products. Most systems were not designed for multiple currency/multiple product strategies. However, they do note that building a business case for technology investment at a time of increasing competition is difficult, these expenditures need to be prioritised and cost justified, more so than ever before. There is a need to recognise that established insurance businesses do have the advantage of a wealth of historic information compared to newer entrants but need the opportunity to leverage this data effectively, particularly to retain long-lived quality and profitable customers.

What is clear from all the research is that updating the core technology platforms that underlie the main processes within insurance is imperative, for survival and to compete effectively. The stability of the back-end platforms is paramount throughout any transformation and is key to ensuring that customers do not suffer.

It is also clear from the research that competitive differentiation within the sector will be driven by the clever use of customer data and analytics and the ability to collect, extract and use customer data from existing and new systems. This will deliver the intelligence needed to be adaptive to customer needs now and in the future. The whole “Big Data” debate is rife but it is clear that those organisations using customer data to drive competitiveness and deliver improved customer engagement will ultimately be the winners.
Addressing global challenges locally

Locally the challenges for insurers to make changes in back-end technology platforms manifest themselves in different ways. For example research from Celent\(^5\) into the challenges for South African insurers includes more regulatory scrutiny on products particularly those targeted at the low-end consumer, the pressures to add new distribution channels in times of economic recession and more flexible billing processes. However continued net growth and increasing wealth of the population, and propensity to seek insurance products is driving greater competition in the market from new players. There are challenges ahead for insurers in the region and for those coming in from outside to manage the growth of and intelligent use of customer data.

Adapting to changing legislative requirements is another good reason for back-end technology change. One area of consideration is the Protection of Personal Information Bill which will impact the way in which companies must process personal information. In addition more focus is being placed around Solvency Assessment and Management and Treating Customers Fairly. Adapting legacy platforms to the needs of today’s compliance and legislative landscape is complex, time consuming and fraught with issues. Legislative change can have positive and negative impacts for our industry but it is critical to have technology infrastructure that can easily adapt to them.

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\(^5\) Celent Insurance and Technology in the South African Insurer 2009.
Enhance and Evolve

The opportunities are huge in South Africa for those insurers who can rise to the challenges. Regionally high levels of economic growth and rising insurance penetration rates offer real potential. The range of products now in demand by consumers is growing and the potential for more is huge. However it is clear that those companies that have invested in new core technology to capitalise on the opportunities will be more successful than those who haven’t. Historically South African insurers have invested in tightly coupled monolithic systems that now don’t adapt well to change and are very expensive to maintain.

So what is the answer for those businesses stuck with legacy systems – there are however some great examples of abandoned technology upgrade projects. There is however some great examples of emerging technology “Enhance and Evolve” strategies. There is a need to move to a world where .net and Java skills are plentiful and cheap whilst older development skills of COBOL and RPG are retiring. There is a recognised IT skills shortage in the African insurance market.

Taking the elephant and breaking it into manageable pieces and gradually replacing core systems whilst maintaining business as usual and it is this approach that is helping some businesses move to new flexible technology platforms that support todays business needs.

Insurers need core systems that are architected to adapt to change but that still deliver the competencies needed in a highly legislated market. There is a need for flexibility and adaptability to add on new technology whilst retain and leveraging legacy information. Systems that allow for multi-currency and multi-language. Systems that support the management and analysis of huge and growing volumes of data required to design more customer-centric strategies. Systems that are inherently built for the digital world with multiple distribution channels.

The “Enhance and Evolve” approach helps businesses to mitigate risk, to continue to operate whilst upgrading. Extracting all the value and data from the existing systems (and there are huge amounts of it) on a step by step basis.
The most urgent business priorities can be addressed first whilst other systems can be updated in line with strategic business need. This approach allows the business to be proactive in addressing legacy systems rather than being driven purely by market change. Insurance businesses can choose which are the most critical legacy technologies to upgrade on a piecemeal basis and are able to incrementally update without the massive impact of a rip and replace methodology. The opportunity to take advantage of Software-as-a-Service (SaaS) delivery will also play a big role in legacy evolution for those companies able to manage the constraints and risk around data management. Ultimately every one of the typical 5 to 14 core legacy systems embedded in the average Insurer can be enhanced and evolved and inevitably have the old systems decommissioned with minimal impact, minimal risk and cost effectively. The result is a flexible adaptable modern platform that enables the business to respond fast to change, that is optimised for “Big Data” and new product development and digital and mobile and social media and, and, and, and... all the things that will impact our business today and in the future.

That doesn’t mean that investment in new technology will end. Investment will always be needed, however the benefits of modern platforms are that it is so much faster and easier to add new functionality, to respond to change, to modify processes or to adapt to new legislation or best practise. Keeping the business at the forefront of technology in these times of rapid change is an imperative because as stated by McKinsey & Company:

“Technology enabled business will not only be a boon for consumers but will stimulate growth, innovation and a new wave of pace-setting companies.”

The challenge to transform core platforms is real, however by adopting an “Enhance and Evolve” strategy it might possibly be pain free.
Further reading

“Executive Interview with Commonwealth Bank”
Gartner June 2012

“Strategic and emerging issues in South Africa Insurance”
June 2012

“The do or die questions boards should ask about technology”
McKinsey & Company 2013

“Insurance and Technology in the South African Insurer ”
Celent 2009

“Asia Pacific Insurance Outlook”
Ernst & Young 2013

“McKinsey Quarterly – Ten IT-enabled business trends for the decade ahead”
McKinsey & Company 2013

About SSP

SSP is the leading provider of distribution and modernisation solutions for the general insurer. Assets spanning the full intermediary to insurer value chain. An understanding of the commercial and personal lines markets built over 25 years. Unparalleled project delivery experience gained with 160 customers located in 20 countries in Europe, North America, Africa, and the Asia-Pacific region. Around 700 professionals with the advisory, delivery and servicing expertise to support IT modernisation. SSP works with clients to help them enhance operations and boost top and bottom line growth by renovating or replacing their back-office systems with modern and innovative enabling software solutions. Clients include Absa, Aegon, Aviva, Axa, CGU, HSBC, Insurance Box, Progressive, QBE, RBS Insurance, RSA and Zurich. Plus entities at Lloyd’s focused on the retail insurance market. You can find more about SSP at www.ssp-worldwide.com.

Contact us


South Africa Office: Sandown Mews West, 88 Stella Road, Sandton, 2196 South Africa
www.ssp-worldwide.com