

Policy Administration Transformation
Driving the change agenda



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Executive summary

Replacement of legacy policy administration systems remains one of the most difficult puzzles to solve in the insurance industry. The appetite to take on a complex transformation which is at the heart of the business requires a compelling business case, a substantial financial investment, deferral of other strategic projects based on the breadth and scale of this type of program, a commitment to lock in key business and technology talent, and a willingness of executives to make difficult business decisions.

While many current policy administration systems are old, difficult to maintain, and have tremendous maintenance costs, many companies remain stuck in solving the policy administration Gordian knot. Without question, legacy policy administration systems may be the single greatest barrier for a company in designing products, and selling and servicing their policy-holders.

Given these challenges, how might a company's leadership team ignite a strategic program that is compelling, properly designed and funded, supported by the executives, and grounded in its mission to transform the business?

Deloitte's global leadership and demonstrated approach to policy administration transformation are among the most respected in the industry. Deloitte leads the way in product design, distribution, underwriting, systems architecture and development, advanced analytics and project management to bring the skills necessary to execute a policy administration transformation.



Defining business value

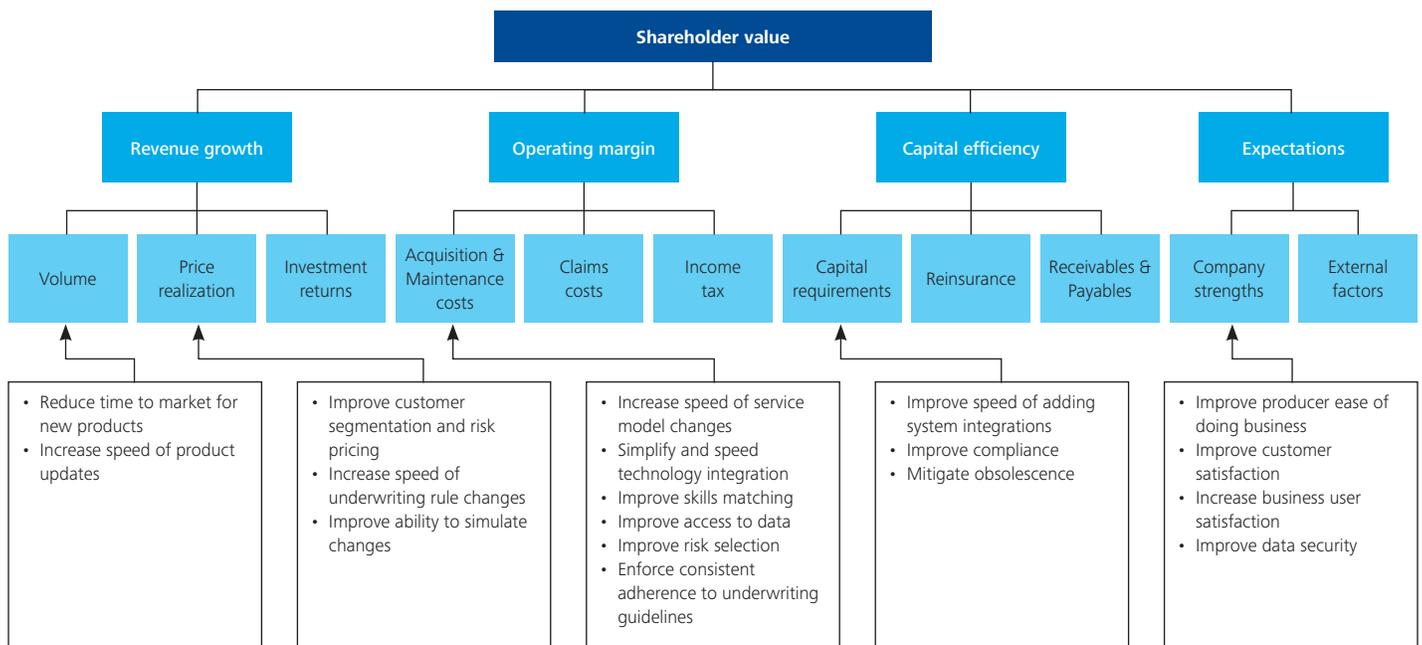
To gain approval, large-scale transformation programs require a compelling business case. The business value created by product, underwriting, or ease of doing business improvements are the foundation for a strong business case, especially given the long implementation timeline and high price tag. Very few insurance carriers would ever undertake these initiatives on the basis of an aging or redundant system and lack focus on their business benefit.

Quantifying the benefits of a policy administration transformation is a difficult task. Moreover, commitment to the benefits by executives is difficult given the variability in methods to measure and quantify benefits which tie to real financial results. For instance there are external

factors that impact pricing, retention, and new business acquisition. These include competitor aggressiveness and marketing effectiveness. While improving speed-to-market for your insurance products might normally help increase sales volume, in today's ultra-competitive environment, this improved speed-to-market might simply prevent your organization from losing share.

Whether or not a carrier can fully quantify their benefits, an organization should understand the correlation between its actions and the four levers that impact its shareholder value: Revenue Growth, Operating Margin, Capital Efficiency, and Expectations. This rigorous analysis is done to sharpen the policy transformation focus and to assess whether specific implementation components are adding relevant and specific business value.

Deloitte Shareholder Value Map™



Below is a sample list of benefits that Deloitte's clients have identified and quantified when building a compelling case to modernize their policy administration solution:

Business agility – Improve business agility by increasing the speed of service model changes and underwriting rule changes.

Product refinement – Improve product offerings by reducing time to develop new products and increase the speed of product updates. Reduce product maintenance costs by providing the business the ability to create, manage and rationalize products where possible.

Pricing – Increase revenue through effectively pricing both existing and new business. Improve customer segmentation and risk pricing.

Customer service – Improve producer ease of doing business through enhanced workflow and improve the customer experience via self-service functionality. Pre-fill information collected through third party data sources whenever possible.

Distribution channel – Broaden distribution channels by providing the appropriate integration points required to support various channels, such as online portals, IVR, and mobile applications.

Risk management – Improve risk management by better understanding customer risk profiles. Reduce business risk via reduction in key-person dependencies.

Organizational effectiveness – Improve organizational effectiveness by improving skills matching to more efficiently allocate tasks to available resources. Reduce onboarding and training durations via use of intuitive and modern technologies.

Underwriting effectiveness – Increase underwriting effectiveness by facilitating adherence to underwriting guidelines. Improve risk selection via automated rating, analytics, and risk assessment rules. Improve risk pricing and segmentation to lower loss ratio.

Regulatory compliance – Improve compliance and reduce the effort and costs to adhere to regulatory standards.

Technology integration – Simplify and streamline technology integrations and reduce development costs by implementing a modern and flexible Service Oriented Architecture.

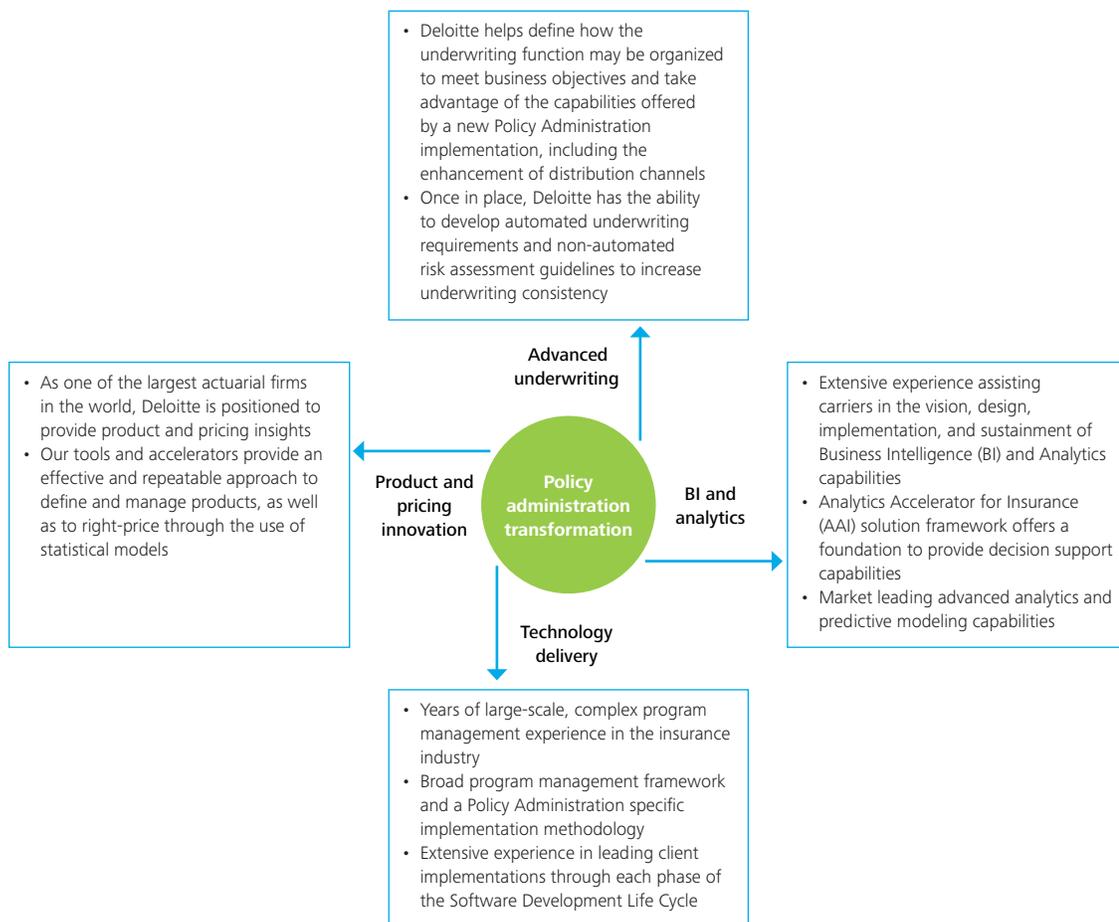
Platform enhancements – Reduce the time and effort associated with platform enhancements and upgrades and reduce the risk of obsolescence by utilizing “out-of-the-box” functionality and minimal customizations.

Data and analytics – Improve and protect information quality by establishing consistent data standards and governance processes. Provide appropriate and secured access to data for knowledge workers to effectively do their jobs. Gain insights into customers, products, and producers through a single source of truth. Embed analytic insights into rate scenarios and underwriting processes to improve pricing, underwriting, servicing, and risk management.



Deloitte differentiators

Beyond technology delivery experience and skills - which are table stakes for all serious Systems Integrators - Deloitte has a broad range of capabilities, blending the practical experience of product managers, actuaries, underwriters, brokers, and other industry experienced resources to help our clients in their effort to achieve the benefits highlighted in the previous section. In addition to the appropriate people and skills, Deloitte has relevant tools, accelerators, and tested processes that move our capability from an art to a repeatable science, which can help reduce project timelines and mitigate project delivery risk.



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Product and Pricing innovation

As one of the largest actuarial organizations in the world with extensive analytics and risk quantification capabilities, Deloitte provides product and pricing insights that are uncommon in System Integration firms. Deloitte uses an integrated approach, supported by industry leading tools and accelerators, to define product strategies and

effectively manage products throughout their lifecycle. Deloitte’s actuarial predictive modeling capabilities and deep understanding of current regulations help clients in their efforts to develop innovative insurance products that meet customers’ demands while being compliant with state regulatory requirements and guidelines.

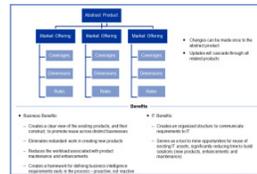
Product and pricing innovation tools and accelerators

Product development methodology – Provides a market leading approach for product development. The methodology includes details on executing the Product Innovation Lifecycle – a consistent, repeatable six-phase process for introducing new products or enhancing existing products

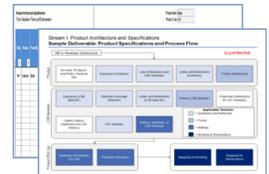


Product inventory template – The product inventory deconstructs market offerings into their true products and includes defined products and offerings

Product architecture approach – Provides a consistent and effective approach to product architecture, beginning with core products, then tailored coverages, dimensions, and rules to create focused market offerings



Product specifications template – This template facilitates the development of product specifications, including coverages, forms, rating, etc.



Advanced underwriting

Deloitte has experience with helping insurers improve their underwriting functions to take advantage of the capabilities offered by a new policy administration transformation. This includes the enhancement of distribution channels. Deloitte has the ability to develop automated underwriting requirements and non-automated

risk assessment guidelines to increase underwriting consistency, and provide accurate and timely delivery of quotes and renewals – fostering profitable growth. Pricing and underwriting decisions can be improved through the integration of Deloitte’s Enterprise Scoring Engine with a new policy administration system.

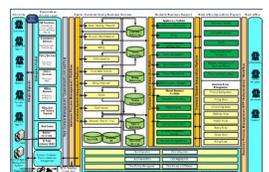
Advanced underwriting tools and accelerators

Business process health check – This is a composite deliverable that is used to clarify processing gaps and issues, crystallize pain points, and establish a foundation for future state visioning. Specific assets include: Capabilities Checklist, Interview Guide, Pain Point Survey, and Pain Point Heat Map

Underwriter workstation requirements framework – The Underwriter Workstation Requirements Framework provides a starting point for both business and technology requirements. The framework can be used to complement existing underwriting portal requirements

Underwriting transformation – This asset supports the development of the refined underwriting organization including future state process definition, roadmap development, and implementation plan development

STP toolkit – This toolkit assists clients to understand the business process, technology, and people components that should be addressed to support successful underwriting automation



BI and Analytics

Deloitte is a market leader in the industry across data management, business intelligence (BI), performance management, predictive modeling, and advanced analytics. Deloitte's Analytics Accelerator (AAI) for Insurance framework provides a foundation for advancing reporting, business intelligence, and analytics capabilities for insurance carriers. AAI extends the value of data by assessing that it is translated into information that is accessible and trusted for decision support and process improvement.

Deloitte's Advanced Analytics and Modeling service makes extensive use of statistical and quantitative analysis, explanatory and predictive modeling, and fact-based management to gain insights and drive integrated decision-making. Deloitte's business analytics provide improved underwriting and pricing discipline through algorithmic and predictive modeling capabilities, with the ability to provide, integrate, and deploy an end-to-end business approach across a range of product lines.

BI and analytics tools and accelerators

Business analytics – Deloitte Analytics refers to the skills, technologies, applications, and practices for continuous iterative exploration and investigation of past business performance to gain insight and drive business strategy

AAI – The Analytics Accelerator for Insurance (AAI) is an extensible data warehouse and business intelligence framework that increases the value of data for decision support. Integration with leading vendor solutions such as Guidewire, Cognos, Oracle BI, and Business Objects provides broad self-service analytics capabilities



Predictive model framework – The Predictive Model Framework supports Implementation teams and our insurance clients to increase the value of predictive data analytics and models

Technology delivery

Deloitte's Technology Consulting Practice is comprised of more than 26,000 practitioners across more than 30 countries and has effectively delivered more than 4,300 technology projects.

A differentiating factor for Deloitte's insurance technology capabilities is bringing core technology capabilities with market leading industry experience to provide complex system transformations. Deloitte's team is comprised of CIO's and CTO's who have served in the industry. In addition, Deloitte's insurance staff is trained in business and technology disciplines across the insurance value chain to improve policy administration transformation program execution. Deloitte's broad set of policy administration specific transformation tools, accelerators, and methods tailored specifically for policy administration implementations that can simplify the transformation process.

Technology delivery tools and accelerators

Technology architecture – This asset defines a technology framework for assimilation of a new policy administration system through principles, standards and common approaches; Establishes or refines the technology architecture vision and roadmap accommodating the new policy administration system



Policy administration implementation methodology – The methodology is a broad execution method that provides the structure, governance, and execution model needed to effectively provide a Policy Administration transformation



Policy estimator template – The Policy Estimator Template has been configured to generate an estimate for all phases across the Software Development Life Cycle (SDLC). This estimator uses the current SI estimator as a base, and has been adjusted to create Policy Administration specific estimates

Technology's role

At the end of the day, Policy Administration systems perform two basic functions - they automate workflows and manage data. That's it. Modern Policy Administration system capabilities have come a long way from what was available as little as 10 years ago. While these tools now come with improved out-of-the-box functionality and are easier to configure and maintain than ever before, the fundamental purpose they serve is the same as the Policy Administration systems of the 1980s. Technology becomes a strategic asset when supporting improved business processes.

While Policy Administration technology by itself is a critical component to enable the business process and increase efficiency, one must recognize the risk and therefore plan for each component of the end-to-end solution while managing risk effectively. The purpose of this paper is not to guide you through the steps required to implement Policy Administration Systems, but to leave you with a few specific thoughts for improving your chances of achieving desired results:

1. Avoid software customization unless there is a clear and measurable link to significant business value. Implement a careful process to evaluate the business benefits of the proposed customization.
2. Leverage a Systems Integrator who can provide a broader perspective and experience beyond pure technology integration to assist with requirements creation and design, and share industry leading practices on how the target system and business process design should operate.
3. Business rules should not be created by the technology team. Instead, rules should be created by business subject matter advisors who are familiar with the organization's business processes or can bring in a valuable outside perspective on how to create, store, and manage rules and when to fire them in order to achieve business benefits.

For additional thoughts and a more in-depth guide to effectively implement Policy Administration Systems, please see Deloitte's relevant thoughtware including, "Policy Administration: Achieving Results in a Complex Ecosystem".

Forrester has named Deloitte a leader of Business Technology Transformation

"Deloitte clearly understands the intersection of technology and business. Its client references were among the best we received, with one project incorporating current and future business needs, future flexible architectures, and implementing state-of-the-art technology. The depth of its capabilities surprised even Forrester, since Deloitte's brand is so much more clearly identified with its advisory services. Clearly the importance of the business decision-maker and stakeholder in business transformation projects gives the more historically business-focused consulting firms a leg up. Deloitte's approach to this practice area highlights its exemplary understanding of Fortune 500 business and technology needs."

— Forrester Research, Forrester Wave™: Business Technology Transformation Q3 2012",
Stephanie Moore, July 19 2012

In conclusion

The cost of implementing a policy administration transformation is significant. Because there are many investment opportunities competing for limited budget dollars and a finite amount of delivery resources, the decision to move ahead with a policy transformation should be fact based. Deloitte's Enterprise Value Map can help an insurance carrier in their efforts to identify compelling benefits that are often ignored or difficult to determine given the lack of clarity in harvesting data to substantiate the value of business levers.

Once a carrier's executives and the board agree to execute a policy administration transformation, a holistic delivery approach that leverages experienced business and technology resources is important to realizing one's

stated business benefits. Deloitte has shown that when policy administration transformations are planned and executed with a diverse array of professionals including Underwriters, Product Developers, IT Professionals, and Information Architects the final capability provides much more than a new technology platform and can improve business stakeholder satisfaction.

While the policy administration puzzle continues to challenge insurance carriers, a path forward that combines an enterprise value focused business case with a committed team of experienced professionals has been shown to provide tremendous value. This value is realized as carriers are better able to design and implement new products, sell to, and service their policyholders now and in the future.



Contacts

Linda Pawczuk

Principal
US Insurance Consulting Technology Leader
Deloitte Consulting LLP
lpawczuk@deloitte.com
+1 720 264 4854

Donna Schlegel

Director
Deloitte Consulting LLP
dschlegel@deloitte.com
+1 973 665 4553

Brian Van Daele

Senior Manager
Deloitte Consulting LLP
brvandaele@deloitte.com
+1 312 486 4961

David Schmitz

Director
Deloitte Consulting LLP
dschmitz@deloitte.com
+1 312 486 2118

Gordon Gaudet

Director
Deloitte Consulting LLP
ggaudet@deloitte.com
+1 630 235 8612

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