



Policy Administration
Transformation
Achieving results in
a complex ecosystem



Contents

Executive summary	3
Market and technology drivers	4
The trouble with policy admin	5
How Deloitte can help	9
In conclusion	11

Executive summary

As the U.S. economy improves and the Property and Casualty (P&C) insurance industry continues to recover, the large-scale core-system replacements that had been postponed earlier are now being revisited. P&C carriers are refocused on these core-system replacements – specifically Policy Administration – in an effort to compete in the marketplace and grow their business. Today, more than 40% of mid-sized carriers and more than 25% of large carriers are either in the process of implementing a Policy Administration System (PAS), or are planning a replacement project sometime in 2012¹.

While many CIOs dream of providing their business counterparts with a system that improves product speed-to-market and delivers significant straight-through-processing capabilities, seasoned CIOs know that these efforts are not easy. In fact, CIOs know that many significant and high-profile PAS replacement programs have ended in failure.

Across the insurance technology landscape, there is simply nothing as daunting as a PAS replacement. While claims and billing replacements each have their own intricacies, they are relatively straight forward endeavors compared to Policy Administration. The technology ecosystem in which Policy Administration lives is complex, playing a role in most of a carrier's functions from core Policy functions such as quoting and rating, to broader capabilities such as underwriting, distribution, and customer service. Figure 1 is a simplified view of Policy Administration and its central positioning in insurance operations.

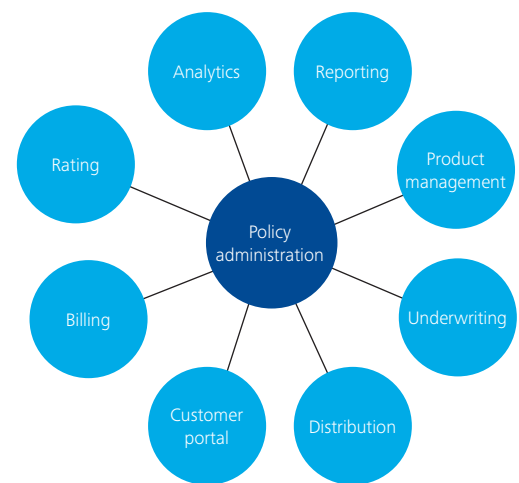
In addition to the technical complexities of a highly integrated system, these programs become more difficult when attempting to streamline a carrier's processes and improve performance at the same time. While a less complex "rip and replace" implementation approach is certainly viable, this approach can be a long-term inhibitor of business benefits and does not allow carriers to drive additional value. Leading carriers understand that

the real value lies in the ability to deliver improved business capabilities, such as improved product management, streamlined underwriting, and expanded distribution channels.

PAS implementations are costly and labor intensive as they utilize a great deal of both business and IT resources. Because even the most aggressive PAS implementations are measured in quarters, not months, there is a high probability that other transformation initiatives will be impacted. In addition to opportunity costs, the risks associated with these highly visible implementations are great.

But there are reasons to be optimistic about future PAS implementations. First, Policy Administration software vendors have greatly improved both their offerings' capabilities and ease of implementation over the past decade. Second, we have seen enough PAS implementations to understand common planning and delivery mistakes and can help your organization avoid them.

Figure 1: PAS ecosystem



1. "US P/C Policy Administration Projects: Averages and Metrics", Novarica April 2012

Market and technology drivers

“I was seldom able to see an opportunity until it had ceased to be one.”

– Mark Twain

Many P&C insurance carriers are operating on policy administration platforms that have been in place for decades with significant operational and technological risks. This, coupled with a highly competitive market and availability of improved vendor offerings, is driving several insurance carriers to undertake PAS transformation initiatives. Based on research conducted by Novarica, many P&C PAS projects show improvements of 25% or more in the company's speed-to-market and data accessibility, as well as gains in business user satisfaction, distributor service, and reduced technology risk².

Market demand

In today's competitive environment, carriers need a system that provides the flexibility to improve product speed-to-market, support growth of its customer base, and improve its underwriting capability and profitability. Customers and agents have higher expectations from carriers to provide improved customer experience and self-service capabilities. Reduced data entry and improved access to accurate policy data are important factors influencing producers in selecting their preferred insurance carrier.

These market forces have pushed insurance carriers to embark on PAS transformations to keep up with or leapfrog the competition. The specific functionalities that most carriers desire from their Policy Systems are:

- Simplified product development
- Quick quoting
- Improved straight-through-processing from quoting and rating to policy issuance
- Enablement of new sales channels
- Quick and easy access to policy data for customers and agents

Legacy platforms

Many carriers are operating on systems that are decades old, which carry significant technology risks as well as increased costs to maintain and support. These older systems often fail to meet the changing demands of the business, due to their inability to scale fast enough to support the carrier's growing customer base and expanding product set. Systems deteriorate over time due to the complexity introduced by multiple upgrades and enhancements over the years to support business needs. This makes them difficult to support and maintain. Maintenance becomes increasingly difficult as the workforce that supported these systems has retired or is close to retiring, and existing documentation is limited. In addition, the original software vendor has most likely terminated support for the system, requiring carriers to increase staff and associated operating costs to mitigate the risk.

Improved vendor offerings

PAS vendor offerings have improved significantly in the last decade, offering carriers the flexibility and broad capabilities they need through configuration, limiting the need for customizations. Several vendors today offer products that support end-to-end insurance operations, including rating, underwriting, policy issuance, claims, and billing. A number of vendors also offer specific modules that are used to manage certain portions of the insurance policy lifecycle, and that integrate with a central Policy Administration package. The increased number of stable and scalable vendor offerings, coupled with the increased appetite of insurance carriers to implement packaged Policy Administration with minimal configurations and customizations, has contributed greatly to the results of recent PAS implementations.

²: “US P/C Policy Administration Projects: Averages and Metrics”, Novarica April 2012

The trouble with policy admin

“We cannot learn without pain.”

– Aristotle

Anyone who has been involved in a significant PAS implementation knows that there can be a great deal of pain...or learning opportunities in Aristotle's view. Unfortunately, by the time these lessons are learned, months may have passed and millions already spent. On programs this large and complex, there are simply no “do-overs”. Aristotle may have a point here, but there is no reason that you cannot let other's pain be your gain. To prevent you and your organization from having to learn about the implementation pitfalls the hard way, we have summarized the seven major issues that can hamper a PAS implementation along with mitigation recommendations:

1. Unclear business objectives

Issue: Without clear, agreed-to business objectives, it becomes difficult to precisely define and prioritize a program's scope and establish boundaries. In our view, the failure to lock down scope is one of the single biggest causes of PAS implementation failures. Without clear scope, requirements frequently change from a means of delivering the original objectives, to a stakeholder wish list. Scope creep on any project is bad, but scope creep on any transformational effort this large and complex can be a disaster.

Mitigation: Define exactly what you are trying to solve and communicate these objectives throughout the organization. Change requests should be evaluated against the project's documented business objectives. If a project activity does not align with the approved business case and program charter, it should be rejected or deferred.

While business objectives should be clear and tied to the business case, consider limiting the delivery scope to a manageable level. For example, the scope of the initial implementation should be limited to two of the three major categories:

1. Business process transformation
2. New technology implementation
3. New product introduction

We typically recommend that a PAS transformation starts with the business process transformation and technology implementation. New product introduction should be a fast-follower in subsequent iteration.



2. Changes in business sponsorship

Issue: Large PAS implementations take time. According to Novarica, many large P&C carrier implementations deliver their initial rollout in 20 months, with the full rollout within 40 months³.

Think back to how your organization's leadership structure looked three years ago. Is everyone currently in the same role? When roles change and new leaders 'inherit' challenging implementations, it becomes easy to say "this is not my problem" or "I didn't sign up for this." New sponsors typically have different priorities than their predecessors. During these transitions, scope is often changed, which wastes previous efforts, nullifies completed deliverables, increases delivery risk, and ultimately destroys project timelines.

Mitigation: Sponsors will come and go but business objectives, supported by a board approved business case, should still live on. A sponsor is a project role just like any other delivery position such as a developer, project manager, or business analyst. With that role comes very well-defined responsibilities, the primary responsibility being the fulfillment of the business case. Actions and decisions made by project sponsors should drive the program toward defined business benefits – regardless of who is leading the effort.

3. Insufficient business direction

Issue: IT is obviously a key player and is vital to the results of any PAS implementation. However, when led by IT, new systems tend to look suspiciously like the applications they are replacing and the cow path is often simply repaved. This is not their fault; business process improvement is not IT's job.

IT-Led Transformations have little chance of providing business benefit if the new system does not foster an improved way of doing business. PAS implementations are simply too time consuming and expensive to provide a tangible business benefit if business processes – from Product Development, to Underwriting, to Customer Service – are not fundamentally enhanced.

Mitigation: IT delivery leadership is crucial for effective implementations, but the goals and objectives of the program should be based on business benefits. IT plays an important role in defining the boundaries of the possible, but they should take their lead from the business sponsor.

In some cases, it is up to IT to challenge the business. If the business is asking only for basic functionality or a simple replacement of existing systems and processes due to flawed assumptions of technical capabilities, they may be disappointed with the final result. This, too, is a bad situation for the CIO.



³. "US P/C Policy Administration Projects: Averages and Metrics", Novarica April 2012

4. Insufficient program stamina and discipline

Issue: PAS implementations are not sprints, they are triathlons. Resources involved in programs of this duration often have difficulty maintaining enthusiasm and may often revert back to business as usual. Warning signs of this are if resources fall into set routines, managers approach each day as if it were the same as the day before or the steering committee members decline meetings. As lethargy sets in, resources tend to approach this as more of a department and less of a project. Any hopes of meeting an aggressive timeline are dashed as the sense of urgency and the quality of project deliverables starts to wane.

Mitigation: “Big Bang” implementations are flawed for several reasons including the inability to see tangible, incremental progress. Quick wins and tangible solution components help maintain enthusiasm. Because implementing the foundation itself is time consuming, incremental working code should be demonstrated as quickly as possible to maintain resource enthusiasm and encourage active stakeholder participation. Think about it: Will the Lead Underwriter be more engaged when looking at and providing feedback on functioning screens and workflows, or reviewing page after page of requirements?

An agile-based methodology is a great way to improve delivery flexibility and solution quality, and keep resources enthused and engaged. The opportunity for stakeholders to review and interact with working modules (however small and disconnected they may be) fosters a sense of accomplishment far beyond dry application requirements. But be forewarned, an agile-based methodology should not be applied to something as large and complex as Policy Administration unless the organization has sufficiently-experienced resources and leadership able to mitigate the risk.

While this may strike some as common knowledge, it’s true that strong and positive leadership is vital. Program sponsors should lead from the front, maintain a positive attitude, and be visibly engaged throughout the program’s duration.

5. Role confusion and skill gaps

Issue: By their nature PAS implementations are massive, transformative, “once-in-a-career” undertakings. Leaders without prior experience delivering similar programs may fail to grasp the magnitude of these engagements and the skillset required to deliver them effectively. First and foremost, there may be a lack of clear understanding of what roles are needed to effectively implement a solution. Too often we see clients staffing critical leadership roles with legacy resources unequipped to deal with the size, complexity, and pace required to lead and deliver. Ultimately, we see carriers struggling to implement their most important strategic programs with a staff that lacks the proper skills and experience, and is learning on the job.

As if trying to execute a complex project without properly skilled resources was not enough of a challenge, many carriers compound the problem by introducing organizational complexity. This is done by carving out tasks and awarding the work to multiple vendors, often in an effort “to keep them honest.” Additionally, placing part-time resources in full-time roles and moving resources into new roles during a PAS implementation are common examples of unnecessary organizational complexity.

Mitigation: You do not get a transformative change with a legacy workforce. The vast majority of client resources were simply not hired to execute these types of transformations. Organizations that believe otherwise may run into trouble. That is not to say there is not a role for everyone. In fact, according to Novarica, in a survey of 37 P&C insurers, internal staff handled about half of the work, particularly testing and conversion activities for both large and midsize P&C insurers, with large insurers spending \$10.9 million and midsize insurers spending \$4.4 million on internal resources⁴.

Play to your people’s strengths and augment your staff as needed with an Systems Integrator (SI) who can help fill your resource gaps. Role confusion can be reduced by leveraging one SI. In many cases, Deloitte may be the proper SI for your implementation, and in some cases we will not be. But the important issue is to find one suitable SI to reduce organizational complexity and foster common goals and incentives.

⁴. “US P/C Policy Administration Projects: Averages and Metrics”, Novarica April 2012

As used in this document, “Deloitte” means Deloitte Consulting LLP, a subsidiary of Deloitte LLP. Please see www.deloitte.com/us/about for a detailed description of the legal structure of Deloitte LLP and its subsidiaries. Certain services may not be available to attest clients under the rules and regulations of public accounting.

6. Disparate rule sets

Issue: In our experience carriers have much in common regarding business rules. Their business rules can typically be summarized as hidden, not well documented, and disorganized. The hidden rules are usually discovered, of course, during the testing phase when the effort and expense required to incorporate these rules are significant.

Similar to the IT-Led Transformation issue, a secondary problem with rules is that carriers often take their existing rules and drop them as is into the new system, squandering the opportunity to evaluate the rules themselves and tailor their execution to streamline business processes.

Mitigation: True, the task of identifying and re-organizing business and underwriting rules is a significant and time-consuming effort, but this is a tremendous opportunity to make the most out of your rules. At a high-level, your organization should utilize a four step approach to collecting, organizing, and redeploying rules:

1. Define your underwriting, rating, product, and workflow rules strategies. What rule types will you re-use, and which types will be rewritten?
2. Define a plan to store and categorize rules. For example, rules can be categorized as follows: eligibility rules, underwriting rules, and data validation rules.
3. Allocate ample time in the project plan to adequately understand the rule's landscape and create proper documentation.
4. Understand where to fire rules in order to improve workflow.

7. Estimation accuracy

Issue: Without having a complete understanding of project scope at the outset of a PAS implementation, there is no hope of properly estimating the effort and delivery date. Without an accurate estimate, project delivery timelines are difficult to achieve.

Some carriers will create one estimate and assume that project timelines will adhere to this rather than understanding that as time goes on more precise estimates can be made.

Estimates are sometimes overly optimistic based on common mistakes such as underestimating the coordination required on a program of this size,

deploying new implementation tools or technologies without accounting for the learning curve, estimating only the core PAS implementation without considering interdependent projects, or forcing estimates to hit a pre-defined cost target.

Mitigation: A very simple yet effective means of initial estimation is to find similar implementations at comparable carriers and assume your implementation will be in the same ballpark. Also, leverage your SI, software vendor, or external data sources such as Gartner or Novarica in order to understand realistic high-level timeframes.

To create proper estimates, it is critical that sufficient upfront planning occurs and that each scope item is fully defined via implementation strategies. The list below highlights some of the major strategies that should be defined in order to establish and communicate the program's overall approach to major components:

- **Program Strategies** – Program Management, Resource Management, Quality Assurance and Testing, and Policy Conversion Strategy
- **Business Strategies** – Change Management and Training, Communications, and Product Management
- **Technology Strategies** – Infrastructure, Integration, Forms and Correspondence Management, and Data Conversion

Additionally, clients – both business and IT - should understand that estimation is not a one-time event. Initial estimates conducted during the project inception phase will likely be +/- 40%. True with any large implementation, estimates should become more precise in later phases. Re-estimation should take place at critical program milestones, such as the completion of High-Level Business Requirements or Integration Design.

Realize that Policy Administration implementations are simply too complex to make definitive statements on delivery dates, such as "We will deliver X functionality on Y date". By using an iterative delivery approach and by constantly prioritizing requirements throughout the program timeline, delivery of the more important functionality can be more closely predicted and controlled.

How Deloitte can help

“In those days he was wiser than he is now;
he used to frequently take my advice.”

– Winston Churchill

Policy administration system delivery framework – Deloitte brings a differentiated value proposition to our Policy Administration engagements. Rather than simply supplying technologists to configure screens or manage your PMO, Deloitte offers a holistic approach to help you in your efforts to achieve your business benefits. Our Policy Administration System Delivery framework highlights the areas in which Deloitte can add value to your implementation.

From Business Strategy Definition and Underwriting Transformation Design, to Product Inventory and Development through System Configuration, Data Conversion, and Testing, Deloitte is positioned to assist your PAS implementation and help you realize benefits. The framework can be taken as a whole, or services can be selected a-la-carte in order to help meet your specific needs.

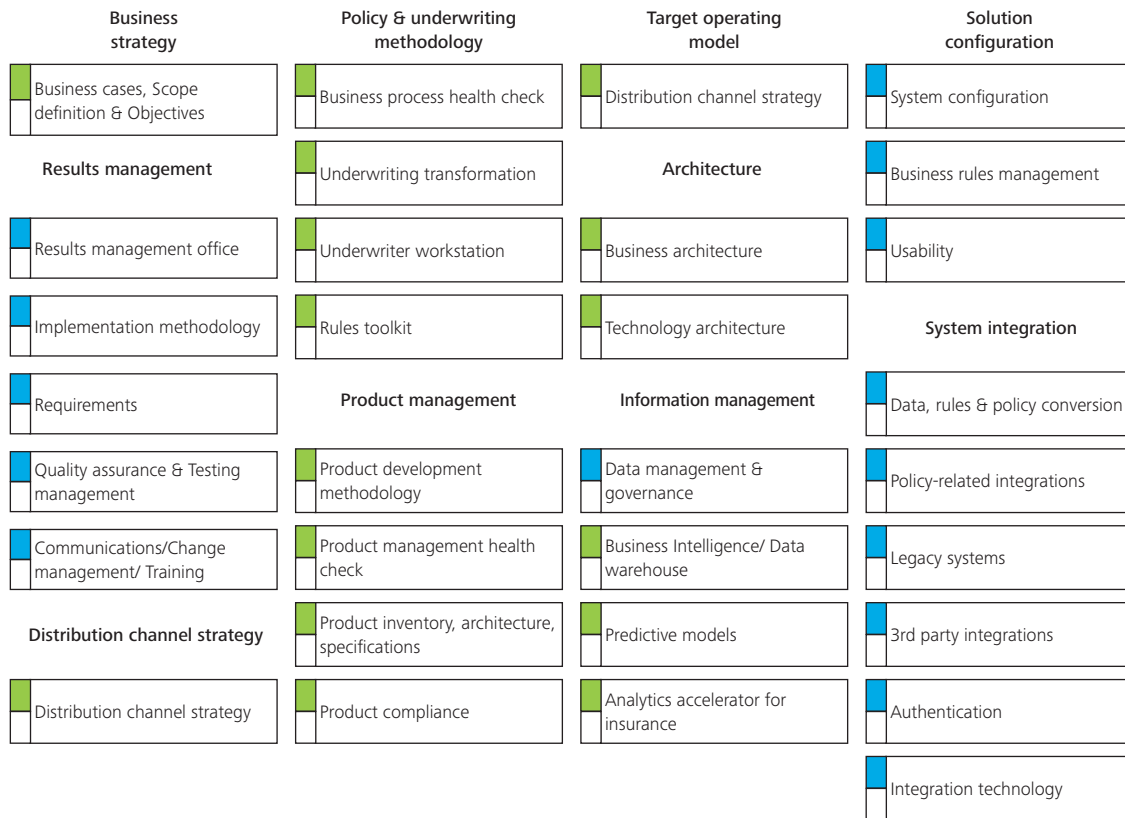
The differentiator that Deloitte offers is our ability to provide services beyond technology. Within our Business Strategy and Transformation service lines, Deloitte has a number of seasoned professionals with insurance operations knowledge and experience to help you get more benefit from large transformational initiatives such as PAS implementations. Deloitte has a number of supporting tools and enablers that can accelerate the business transformation efforts that should supplement a PAS implementation. Additionally, Deloitte, as one of the largest actuarial organizations in the world, has the ability to help you better define and manage your insurance products going forward.

Defining program roles – We understand that a PAS implementation is a team effort, and each player – carrier, SI, and vendor – brings their own strengths and limitations to each implementation. Deloitte has defined a hybrid PAS delivery methodology which defines not only project roles, but who to fill them.

Beyond a simple organizational chart, we define the skills, roles, and responsibilities for each player, from the project sponsor to test team members. This is critically helpful in determining whom to assign to each role, as well as to setting clear expectations for each team member.

Program management vs. Results management – PMOs are designed to keep programs on track, they are not structured to determine if business results are delivered. While they are certainly related, those are two very different things. A Results Management Office (RMO) is an extension of the PMO that provides a framework for achieving program objectives. An RMO increases focus on the business outcomes a program can provide, directly linking programs with broader organizational strategy, and providing for effective business and technology integration.

Figure 2: Deloitte policy administration delivery framework



Typical system implementation

Deloitte expanded services

In conclusion

“The measure of success is not whether you have a tough problem to deal with, but whether it is the same problem you had last year.”

– John Foster Dulles

Make no mistakes, PAS implementations are not simple undertakings. While no two implementations are the same and each will have its own set of challenges, we have seen enough implementations to help you avoid common mistakes and to mitigate new challenges as they arise.

Picking the appropriate vendor package and implementation partner, and having clear business objectives, scope, and associated estimates and expectations can go a long way toward delivering a PAS that meets its stated business objectives. Given that these implementations are major and infrequent occurrences, it makes sense to provide as much value as possible while the opportunity exists. Deloitte can help your organization provide more than just technology. Find out how Deloitte can help your organization fundamentally transform and streamline your business process to make more of your Policy Administration implementation.



Contacts

Linda Pawczuk

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

David Schmitz

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

Donna Schlegel

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

Gordon Gaudet

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

Brian Van Daele

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

This publication contains general information only and is based on the experiences and research of Deloitte practitioners. Deloitte is not, by means of this publication, rendering business, financial, investment, or other professional advice or services. This publication is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a qualified professional advisor. Deloitte, its affiliates, and related entities shall not be responsible for any loss sustained by any person who relies on this publication.