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CELENT MODEL INSURER ASIA 2015

CASE STUDIES OF EFFECTIVE TECHNOLOGY USE IN
INSURANCE

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This is an authorized excerpt from a Celent report. This reprint was prepared for EIS Group, but the analysis has not been changed. For more information about the full report please see www.celent.com.

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WHAT IS A MODEL INSURER ASIA?

The vision for Celent's Model Insurer research is to try to answer an apparently simple question: "What would it look like for an insurer to do everything right with today's technology?" Of course, the question is not nearly as simple as it appears. The terms "everything" and "right" mean very different things to different insurers depending on their size, the complexity of their operations and product sets, and their technological starting points.

Those insurers who successfully display the use of key best practices are considered Model Insurers. Insurance in the Asia-Pacific region faces its own set of business challenges, and insurance technology has evolved along a distinctive path. Celent prepared this Asia-Pacific edition to identify technology initiatives that have recently been deployed in the region.

MODEL INSURER ASIA THEMES

Each year Celent examines trends in insurance technology use. 2014's trends expanded upon the trends of the previous year; however, the technology we saw as innovative in 2013 is now more common and creating opportunities for the insurance companies that implemented it. For example, mobile apps are becoming necessary technologies for insurance companies. It is through these and similar technology trends that Celent's Model Insurer Asia themes are brought to life.

This year's trends build on the past trends of digitization, data mastery and analytics, core legacy system transformation, and operational excellence. All these are potentially key differentiators for an insurance company. Insurers that are experiencing changing customer demographics and values as well as increased demands for transparency are finding that these technology trends have a role to play in their efforts to increase sales, control costs, or even meet regulations. Increased regulation and privacy concerns must be considered when new technologies are integrated with legacy environments.

We believe these trends deserve serious consideration as insurance companies plan for the immediate and long-term future. By embracing them now, technology leaders can give their business counterparts the practical tools they need to succeed in a challenging environment. This year's Model Insurer Asia Awards look beyond the individual process areas and take into consideration the following major technology themes:

- Data Mastery and Analytics
- Digital and Omnichannel (including Mobile Technology)
- Innovation and Emerging Technologies
- Legacy and Ecosystem Transformation
- Operational Excellence in Non-Core Systems

Mobile technology has been widely used by Asia-Pacific insurers. Because Celent believes mobile is part of a company's digital transformation initiative, we created a subcategory under the Digital and Omnichannel theme called Mobile Technology.

In addition we looked for best IT management practices. This year's themes examine how insurance companies are achieving successes in implementing, integrating, and instilling the technology theme into how they do business, offering a new set of tools and opening the door to new rules for operations, performance, and competition.

As such, in this year's award program we identified insurers whose IT projects were submitted to Celent. The Model Insurer Asia Awards epitomize best practices for technology projects and stand out in each of the themes as well as best IT management practices.

NOMINATION AND SELECTION PROCESS

For this report, Celent identified Model Insurer Asia winners through the following process:

- Invitations were sent to Celent clients and nonclients. In addition, to assure the broadest public outreach, the model insurer Asia initiative was promoted through various channels.
- Nomination forms were reviewed by Celent insurance analysts, and submissions that demonstrated innovative or effective uses of technology were selected as Model Insurer Asia winners based on weighted assessments of several factors including the insurer's approach to IT best practices, demonstrated business results, and technology or integration excellence.
- Celent analysts drafted a case study for each winning Model Insurer Asia which was reviewed by the insurer for accuracy and confidentiality.

The 2015 selection process was extremely competitive. On average, each theme had two to three winners.

CLIENT DISCLOSURE

There were no fees charged to insurers or vendors mentioned in this report. Some of the nominating vendors, and many of the selected insurers, are or have been clients to Celent's retained advisory service. (Celent serves dozens of insurers across the globe in this capacity.) However, Celent was not directly involved in the creation or deployment of any of the initiatives that have been recognized, and no preference was given to clients in the selection process.

LEGACY AND ECOSYSTEM TRANSFORMATION

OVERVIEW

The negatives of legacy systems are well known. Legacy systems inhibit operational flexibility and agility. They are expensive to maintain. And they are ill-suited for consumerization of user experiences demanded by internal and external users.

There are four basic legacy modernization strategies:

- Replace with a commercial off the shelf (COTS) package
- Replace with a completely rewritten system
- Wrap and Extend: Using rules, BPM, Content Management, portals, etc.
- Continuous Improvement: Regular incremental improvements combining elements of second and third strategies).

The benefits of modernizing legacy systems are clear: reducing operational and IT costs; gaining a competitive advantage — or achieving competitive equivalency; making better underwriting and claims decisions; and seizing the analytic advantages when information and processes become completely digital.

However, the probability of realizing these benefits is often quite uncertain. So senior management and executive boards looking at modernization proposals have to make difficult decisions. Due to the time, cost, complexity and operational risks of these projects; some are never undertaken, others are delayed, and still others are done piecemeal.

Consequently very few insurers have completed front to back modernization processes — and significant portions of most insurers' application and middleware portfolios are still legacy.

For the foreseeable future, legacy modernization will continue to be a central challenge for insurers' IT groups, operational units, and senior executives

LEGACY AND ECOSYSTEM TRANSFORMATION MODEL INSURER ASIA WINNERS



AMI INSURANCE: REPLACING LEGACY SYSTEM WITH MODERN PLATFORM TO STANDARDIZE PROCESS AND SUPPORT CURRENT AND FUTURE BUSINESS NEEDS

AMI Insurance is a fire and general insurance company based in New Zealand and is a subsidiary of IAG. It was founded in 1926 as the South Island Motor Union (SIMU). It has approximately 700 team members based throughout New Zealand operating in 70 stores (branches) and two call centers. It is the second largest fire and general insurer in New Zealand by policy volume.

Table 1: AMI Insurance Financial Snapshot

THROUGH 12/31/2014	AMI INSURANCE
YEAR FOUNDED	1926
COMPANY SIZE	Employees: 700 GWP:US\$350 million
HQ LOCATION	Auckland, New Zealand
DISTRIBUTION CHANNELS	70 stores, nationwide

Source: AMI Insurance

Opportunity

At AMI business processes were very manual. There were multiple ways of doing different processes, and each of the 70 stores had its own way of operating. AMI wanted to standardize operations in a distributed store and contact center model to deliver a better customer experience that made it easier for customers to interact using the channels they prefer.

The existing bespoke legacy system, running on a Unisys mainframe, had become expensive to maintain and was incapable of supporting current and future business needs, such as a multichannel customer experience that includes online and mobile self-service. AMI needed a system that would enable them to bring new products to market more quickly, and with workflow and work management built into the system to drive business efficiency.

AMI had a number of priorities for its new system:

- An integrated view of customer information across its core operations that improved customer service response and effectiveness.
- Multichannel communications capability, including self-service portals and mobile apps for customers.
- Automated underwriting capability that streamlined new business and policy servicing processes.
- Optimized claims handling system that eliminates many manual processes so that staff can focus on serving customers.
- A highly configurable tool to accelerate product development.
- Business intelligence and monitoring tools to track all system activity and provide business performance benchmarking, reporting, dashboards, and activity-based costing.
- Reduced claims leakage.
- Lower core IT system maintenance and support expenses.

AMI's new owners, IAG, were also keen to leverage the AMI implementation as a transformation platform for additional books of business carried by other brands in its portfolio.

Solution

AMI deployed the EIS Suite of insurance products for managing more than 1 million motor, home, and contents insurance policies (premium around NZ\$500 million) at AMI.

The suite provided policy administration, rating, underwriting, billing and claims management, self-service portals, distribution management, customer relationship and communications management, reporting and analytics, document generation, and management.

EIS Suite solutions use a common database and ACORD P&C XML-based data model. Integration is accomplished via SOA/Web Services; 100% of transactions are accessible to external web services, and 100% of integration points can use web services/SOA. The program code is 100% Java.

The infrastructure used at AMI was virtualized, load balanced Windows Servers, JBOSS, and SQL Server.

Implementation

The project took two years to implement, including process redesign across all customer-facing areas. In Q4 2013 AMI went live in a countrywide rollout of EIS Suite for 23 classes of motor products. The phased rollout to stores went smoothly.

AMI rolled out home and contents products in late October 2014 for eight building types and plans its first online quote and sale facility in Q1 2015.

AMI began migration of existing policies at renewal in December 2013. Over 455,000 policies have now been converted, and 50,000 additional policies are being converted each month.

The project team comprised approximately 100 individuals — including IAG's IT, project management, and customer subject matter experts. They were supported by EIS Group configuration resources both offshore and in New Zealand.

The implementation method was Agile Project Management and Scrum, which was familiar to both EIS Group and the AMI technical teams.

Standardizing processes was a key challenge. Each of the 70 stores had its own way of operating — differences in managing policy processes, sales and service, claims, and even billing. Applying and championing the foundational principle of “One Good Way” to determine the most optimal processes — even it meant many rounds of discussion with stakeholders — was critical in establishing the right business rules and workflows.

AMI is based in 70 locations across New Zealand, so educating employees on how to use the new system was a challenge. The company instituted change champions, and instead of gathering all the employees in one location, AMI developed 40 hours of computer-based training, which most of the staff utilized to become familiar with the system. The system is still used to train new employees, who can rapidly get up to speed on the applications.

A huge challenge to the project was the two significant earthquakes in Christchurch, New Zealand, where AMI was originally headquartered. The second of these earthquakes has been described as the third largest insurance loss ever recorded. As a result of the losses from these events, AMI was sold to IAG, and the New Zealand government assumed responsibility for all AMI earthquake claims. This created a two-year delay between when EIS Group was selected and implementation began. Further earthquake-related delays resulted when reinsurers mandated a dramatic change in the way home policies were defined, and increased reinsurance premiums required insurers to significantly re-rate all existing policies.

Strong leadership and project governance by IAG helped guide the project through organizational upheaval, natural disasters, new government regulation, and reinsurance

requirements to implement a flexible platform for growth and consolidation of additional business units on one common system.

Results

The new system has allowed AMI to optimize and standardize processes to create “One Good Way” of doing things that drove operational efficiency and cost savings across 70 stores and two call centers. The workflow and work management capabilities of the new systems allow AMI to standardize and share workload across branches and call centers — this means that AMI can better respond to localised natural disasters such as storms, where work can be moved to available staff nationally.

The legacy system did not allow AMI to scale efficiently; the only way to serve new customers or improve service was to increase human resources in a direct ratio to new business.

The EIS Suite has enabled AMI to centralise the management of complex claims in the metropolitan areas of New Zealand, freeing up time in stores for sales and service activities. It has enabled a more efficient and standard way of handling of customer inquiries across different channels.

The new reporting functionality has provided greater business transparency, AMI can now monitor how much it costs in time and money to serve customers, understand where there is variation across the business, and highlight where the processes need to be optimized.

The new system allows for greater customer and risk data collection — including metadata from geospatial and vehicle databases — for better pricing and service. It also enforces better validation of the data used to underwrite policies, and so improves underwriting results.

IAG acquired AMI after the AMI selection of EIS Suite and has been able to successfully manage the deployment so that EIS Suite is now serving as a platform for migrating and supporting additional books of business carried by other brands in IAG’s portfolio. The EIS Suite platform will deliver economies of scale — reduced cost and greater speed to market — as new books of business and other brands have migrated and consolidated on it.

Some success metrics achieved by the project are:

- Increased efficiency.
 - Faster time to quote. A 10% drop in average quote processing time in the first 3 to 6 months, and a 15% drop after 6 months.
 - Reduced claims handling time. A 40% improvement in the elapsed time between claims lodgment and settlement.
 - Reduced training time due to easier use of the system. On average, training times (based on an agent being considered proficient across the core functions) have dropped by 20–25% per agent.
- Reduced cost.
 - Reduced IT infrastructure cost. The new systems run on commodity hardware and open source software, and this has resulted in a reduction in data center costs. Following the decommissioning of the legacy system, annual legacy system platform costs of \$1.6 million and \$1.1 million BAU (Business As Usual) of support costs will be avoided. A planned migration of another brand to the platform with result in further avoided costs of \$8.7 million per annum.

- Lower cost of ownership. AMI has already upgraded the platform to a newer version, to take advantage of new functionality in that release. This has proven to be less onerous than many other major system upgrades. AMI plans to upgrade the system every 18 months or so, to keep it up to date and deliver additional functionality and value to AMI.
- Benefit from reusability. Leverage of the platform has meant that the house and contents products configuration occurred in less than half the time of the motor products and at less than a third of the cost.
- Support for growth
 - Enhanced performance. The EIS Suite architecture is inherently reliable since it is fault-tolerant and load balanced. The platform has been designed and implemented to meet a desired uptime of 99.91% and to be scalable enough to double the number of customers and policies on the system.
 - Provide digital platform for direct business. The new system includes a framework and sample applications for mobile app development that gives AMI a jumpstart on providing mobile capability to customers. AMI deployed EIS Suite online and mobile services in early 2015, to support a strong digital services business case. AMI expects 50% of customers to start the sales process online, 35% managing their policies, 30% starting and managing simple claims, and 50% using the mobile app over the next three years.

LEVERAGING CELENT'S EXPERTISE

If you found this report valuable, you might consider engaging with Celent for custom analysis and research. Our collective experience and the knowledge we gained while working on this report can help you streamline the creation, refinement, or execution of your strategies.

SUPPORT FOR FINANCIAL INSTITUTIONS

Typical projects we support related to insurance include:

Vendor short listing and selection. We perform discovery specific to you and your business to better understand your unique needs. We then create and administer a custom RFI to selected vendors to assist you in making rapid and accurate vendor choices.

Business practice evaluations. We spend time evaluating your business processes. Based on our knowledge of the market, we identify potential process or technology constraints and provide clear insights that will help you implement industry best practices.

IT and business strategy creation. We collect perspectives from your executive team, your front line business and IT staff, and your customers. We then analyze your current position, institutional capabilities, and technology against your goals. If necessary, we help you reformulate your technology and business plans to address short-term and long-term needs.

SUPPORT FOR VENDORS

We provide services that help you refine your product and service offerings. Examples include:

Product and service strategy evaluation. We help you assess your market position in terms of functionality, technology, and services. Our strategy workshops will help you target the right customers and map your offerings to their needs.

Market messaging and collateral review. Based on our extensive experience with your potential clients, we assess your marketing and sales materials—including your website and any collateral.

RELATED CELENT RESEARCH

Celent Model Insurer Asia 2014: Case Studies of Effective Technology Use in Insurance
March 2014

Celent Model Insurer Asia 2013: Case Studies of Effective Technology Use in Insurance
March 2013

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