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Six Best Practices for Insurers to Get Their COTS Platform Modernization Strategy Right



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Modernization. This one word perhaps sums up almost every organization's focus as far as their processes and IT systems are concerned. In particular, organizations with massive legacy infrastructure have been struggling to stay relevant in today's digital age and serve the modern day customer. The global insurance industry is heavily dependent on aging and obsolete mainframe systems, often making their internal processes slow and complex and the customer experience less than favorable. Legacy platforms are expensive to maintain, lower insurer agility and flexibility, and push insurers behind the competition. Additionally, the pandemic has further increased pressure on insurer revenue and profitability, making efficiency, scalability, and cost economics a critical business imperative.

There is no question that a sound and robust platform modernization strategy for legacy applications is among the top priorities for insurance carriers. The rigidity of obsolete platforms results in high IT change management that substantially increases operational latency and costs. Besides, with the talent and skills available to run these legacy platforms becoming scarce, there is an increased risk of piling on technology debts. What makes this an even more challenging situation is that in the context of an enterprise, there are not one but multiple legacy platforms running in silos duplicating data, products, and processes, driving up high costs and dramatically lowering productivity. Such redundancies multiply these problems many times.



Why is platform modernization the way forward for insurers?

The insurance sector, conventionally, has been slow to change, and even prominent players have been followers rather than pioneers when it comes to technology adoption. The insurance space is highly complex, with pressures from both customers and regulators and an additional squeeze from the cut-throat competition. If they are to stay relevant today, insurers have no choice but to modernize their tech platforms to imbibe agility and efficiency in their processes and deliver continuous, elevated experiences to the customer. Here's how modern platforms can fundamentally revamp IT operations for insurance firms:

- **Decreased operational expenses**
Legacy platforms are notoriously costly to maintain, especially with talent scarcity and frequent downtime. Platform modernization can help streamline the back-office and elevate process efficiencies, reducing overall IT spending by anywhere between 20 to 30 percent and lowering IT costs per policy by 41 percent.
- **Improved time-to-market**
Legacy platforms lead to low flexibility and poor agility that impact customer experience. Given the rapid pace of tech evolution and a dynamic market landscape, new-age platforms empower insurance carriers to adapt existing products to address market needs rapidly.



■ Reduced business and security risks

By eliminating unsupported and obsolete technology from the insurance tech stack, insurers can protect their information, lower dependency on expensive specialist resources, minimize defects, and ensure an agile and scalable architecture.

■ Optimized pricing and underwriting accuracy

A McKinsey survey found that carriers with modernized IT are “substantially more productive than their peers with legacy IT systems.” Modern systems are more streamlined and drive more

accurate underwriting with sophisticated analytics and 360-degree visibility of their risk cover.

■ Elevated customer experience

Delivering superior and compelling customer experiences is the mainstay of business success. Whether it is delivering enhanced online experiences for users, increasing customer engagement on their preferred channel, improving employee productivity, or ensuring better collaboration between front- and back-office, platform modernization is the only way to achieve these goals.



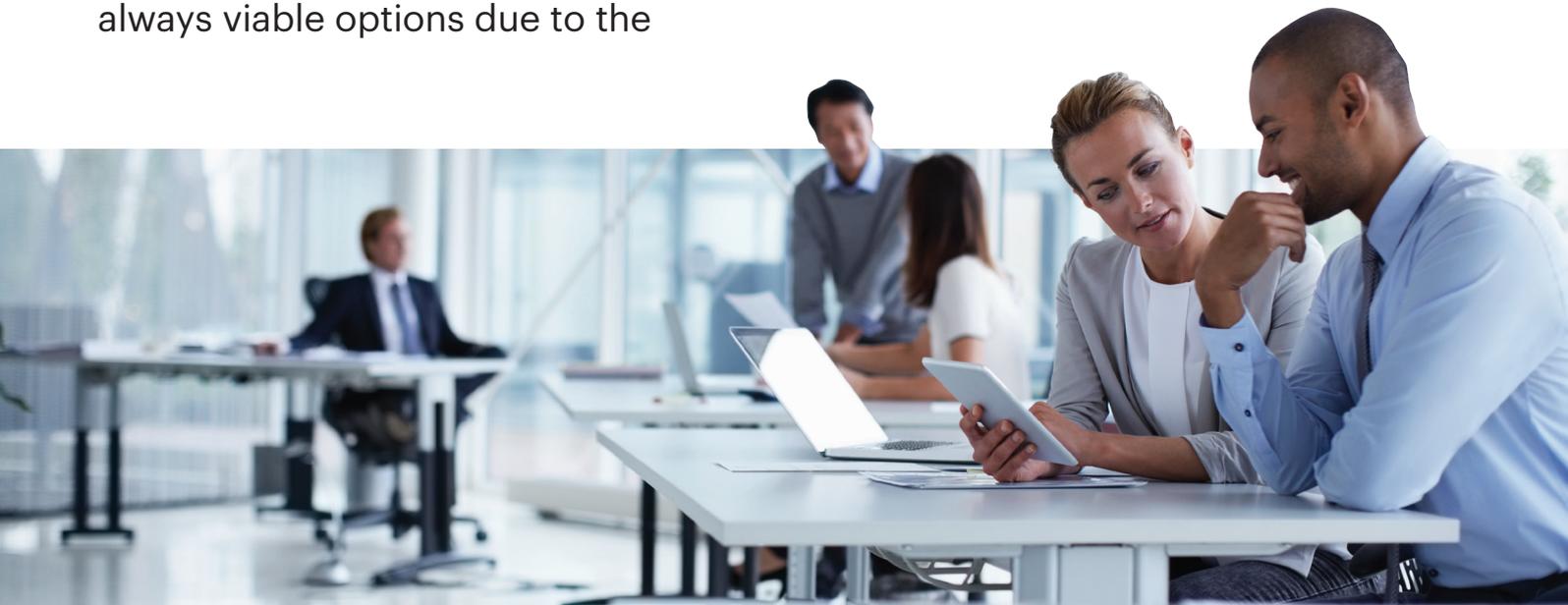
A suitable platform modernization strategy

Now that we have established that platform modernization is the way forward for insurance carriers, how do they execute it with an optimized, disruption-free approach? McKinsey has outlined three strategy lines for modernizing an insurance firm's core systems. These are updating the legacy platform, building a proprietary platform, and buying a standard software package to achieve the desired results.

Traditionally, applications on legacy platforms are complex monolithic systems. Hardcoded business rules pile up over time into a spaghetti code without standards or methods. This often results in a monolithic architecture that makes the unwinding of these business rules near impossible. As a result, the traditional techniques of simplifying business applications, such as rewriting or rearchitecting, are not always viable options due to the

inherent complexity and high costs involved.

Such challenges led software vendors to develop custom commercial-off-the-shelf or COTS platforms that address specific business functions for insurers, including policy administration, claims administration, rating underwriting quotes, agents' compensation, and business product management. These plug-and-play COTS platforms enable maximum configuration with minimum customizations. In an ideal world, these platforms should work well on successfully migrating business data from the existing systems to these new platforms. However, that is often far-fetched in reality. Vital but often overlooked best practices can help ensure a smooth transition to a COTS platform.



Is COTS the right platform modernization strategy for you?

An off-the-shelf platform, in all likelihood, has already been proven to deliver results and only requires minimal adaptation to the specific requirements of the carrier in question. It usually has built-in best practices learned from other platform implementations. This reduces the risk of development in terms of cost, complexity, and duration. It also enables an improved customer experience and a superior functional architecture for managing business processes better. What's more, most of these platforms are SaaS offerings and, in many cases, cloud-native, bringing in several advantages in terms of performance, resilience,

change management, and costs — all out-of-the-box.

That said, a lot can go wrong in using the COTS approach to address your modernization challenges. Research indicates that the success rate of COTS platform implementation is less than 30 percent, implying that this approach is not easy to execute. Several risks and points of failure can derail a successful implementation. But all is not lost. This paper highlights six potential best practices for a successful COTS platform implementation to modernize old legacy systems with a reasonable degree of certainty.



Six best practices to getting COTS implementation right

1 Involve critical stakeholders in the transformation journey from the get-go

Platform modernization is a significant transformation that impacts the whole enterprise, both within and across its external ecosystem. Such an extensive transformation affects the existing customer experience, business processes, IT application change management, IT infrastructure, IT architecture, how the data value is perceived, and much more. In other words, a new platform that replaces one or more existing legacy systems and brings radical, sweeping changes to the enterprise operating model that impacts all stakeholders.

With such far-reaching impacts, it is an absolute must to involve every key stakeholder to be part of the platform modernization journey and decision-making to ensure success. Failure to have all relevant stakeholders on the bus creates roadblocks that can blow up your platform modernization strategy.

This is where setting up a center-of-excellence (COE) for transformation becomes critical. The transformation COE must comprise business leaders, IT leaders, program

managers, architects, developers, infrastructure and security engineers, and customer representatives. The goal of the COE would be to facilitate the transformation by:

- ▶ Becoming the change evangelists
- ▶ Educating stakeholder teams about the pros and cons
- ▶ Building organizational confidence
- ▶ Providing leadership
- ▶ Making critical decisions
- ▶ Eliminating roadblocks
- ▶ Approving tools, utilities, and enablers
- ▶ Engaging cross-functional teams
- ▶ Managing board-of-directors and external stakeholders

Setting up a successful COE is half the battle won. It implies that the organization is united toward a common goal and ready to make change happen. What can be a better foundation for platform modernization?

2 Select the right target platform

The selection of the right COTS platform is potentially the most significant driver to successful modernization. Here is a list of critical criteria that drive the fitment of a COTS platform in the context of an insurance carrier. The best-fit COTS platform is one with the following capabilities but is not limited to these:

- ▶ Support the administration of business products and processes as relevant for the carrier
- ▶ Support data models for all lines of business for the carrier
- ▶ Provide APIs and flexible interfaces for seamless integration with other applications
- ▶ Be sufficiently configurable to minimize IT change management
- ▶ Provide self-service and multichannel engagement to external personas (customers and brokers)
- ▶ Support high availability (anytime connectivity), low latency (real-time or near-real-time information), and quicker turnaround of business processes to support a superior experience
- ▶ Provide specialized tools and utilities to allow easy data migration from existing platforms
- ▶ Support SaaS operations on public clouds and bring all best practices that the cloud platform offers

It is important to remember that what works well for life insurance will not work the same way for disability insurance as they are different products with disparate processes. It is also vital to remember that these COTS platforms in their as-is state are highly simplified and generalized. Thus, the platforms may not have all the unique business rules, data entities, or attributes that carriers are running in their legacy systems. As a result, functional and data gaps are bound to exist.

In a nutshell, it is imperative to test-drive the platform well in the context of the carrier's business operating model, understand the gaps, and have complete clarity on what it takes to fill them. This clarity should guide your decision and commitment to the platform. Also, research the vendor well before proceeding. Ensure that the following aspects of vendor assessment are covered:

- ▶ Financial and technical credibility; ask for case studies, implementation experiences, etc.
- ▶ Get reviews from other carriers who have already adopted the platform successfully

3 Have a solid integration strategy in place

When introducing a new platform into an existing ecosystem, integration is the key from a business process standpoint. The new COTS platform must be connected with the existing applications in the periphery of the COTS platform within the ecosystem. When looked through a different lens, it means that the COTS platform needs to be integrated with the applications that were peripheral to the existing legacy system.

However, it is simpler said than done, as the number of peripheral applications can be substantial. Typically it's a complex network of point solutions implemented to co-exist without a cohesive plan or structure ever being followed. That is how most legacy ecosystems are

built. The chaos does not happen in a day but over decades of having an unplanned and tactical approach to application development. The risk is substantial since missing a connection in even one of these applications will cause the business process to crumble.

Such challenges make it absolutely critical to analyze and understand the current ecosystem well and assess its functional flow paths and the existing integration points. This rigorous approach will help adapt the new COTS platforms within the existing ecosystem. Enterprises that jump into the implementation phase without understanding how the different application dots are connected in the ecosystem are likely to burn their hands.



4 Design a robust data migration methodology

Data migration is probably the riskiest aspect of a COTS implementation. Business data of insurers potentially includes customer data, products, plans, coverages, policies, claims, reference data, and more. This makes a solid data migration strategy and roadmap critical to modernization success. If not planned well, flawed data migrations can impact your customers' assets. In all respect, data migration should be customer-centric in its fundamental approach. Here are essential guidelines for an effective data migration strategy:

- Migrate data in the context of customers to avoid losing the integrity of customer-centric information. Also, plan to migrate data in logical chunks for better control of customer-centric information during migration.
- Strategically decide if high-net-worth customers should be migrated to the new platform before other customers. Remember, migrating high-net-worth customers early in the process may be a risk as your migration methodology may not be fully set up or proven at these early stages.
- On the flip side, moving high-net-worth customers early to the new platform can be helpful from a customer-experience standpoint. You can start providing these customers with an enhanced digital experience sooner and strengthen the relationship with them.
- Within the customer context, think about strategies to reduce the risk of the potential impact on the customer. For example, if the customer has policies for a closed block of products, then migrate those first. This is because the closed block of policies is less risk in asset value. Thus, migrating the closed block can de-risk the migration of the open block of products that is high-net-worth for the customer in question.
- Keep your customers in confidence. As the good old saying goes, transparency and honesty always pay. Remain transparent by keeping customers informed of the changes you are making in your systems and processes that can cause temporary inconveniences. Educate them on how this change will make things much better for them in the days to come.

5 Build the close-out strategy for the existing legacy platform

As the new system replaces an older one, the retirement of the old system needs serious thought. Running redundant systems with no specific business use case can impact the bottom line and defeat the purpose of modernization. Thus, having a sound and risk-free decommissioning strategy for the legacy system is critical. Below are typical options for close-out of the existing legacy system(s). These options work well, either individually or in combinations depending on the business needs.

- Co-exist with the new platform till data migration is 100 percent complete
- Close-out immediately after migration to the new platform is 100 percent complete to reduce overheads
- Co-exist with the new platform for a specific period until the stability of the new platform is proven
- Stay till all the compliance and regulatory functions and reports are set up in the new platform
- Stay on to comply with the regulatory need to house specific data on-premise while the new platform runs on a public cloud



6 Establish an agile program management model

Large platform implementation is a ton of IT work that is essentially cross-functional. Such cross-functional work needs efficient time management, resource management, and communication strategies. The value generated from work needs to be communicated and shared with the business stakeholders regularly and promptly. Remember that new platforms are introduced to make the business run more efficiently, making it imperative to showcase the results of achievements to the leadership regularly to gain their confidence in the program.

This makes agile the preferred style of program management. Such an approach helps to identify potential risks early and gain stakeholder confidence by meeting expectations well.

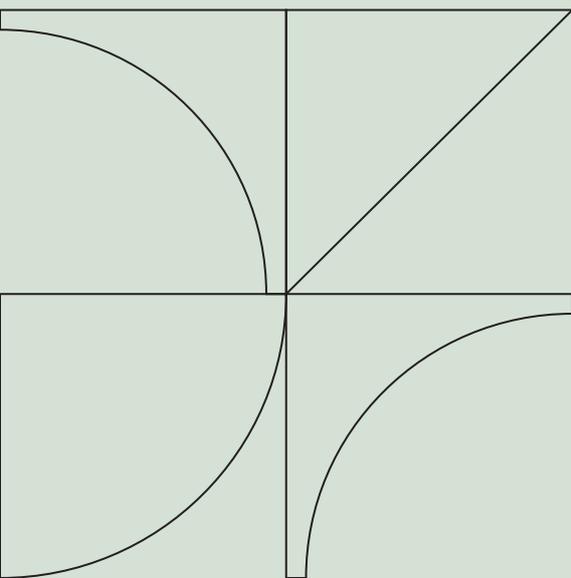
Bonus: Nice to have

Several other aspects are relevant to ensuring the success of your platform modernization efforts. Think of a highly customized and complex monolithic mainframe system that needs to be replaced by a modern COTS platform. A critical barrier to such an exhaustive modernization approach would be the extraction of business rules that are heavily customized and therefore unique to the given mainframe system.

Conclusion: Summing it up

The implementation of new platforms to replace existing systems is anything but easy. The process is complex, with several risks related to cost, business outcome, stakeholder confidence, customer experience, and more. And while historically, the success rate of large re-platforming programs is low, leveraging bespoke best practices and prior experience in similar engagements can help remediate some of the risks and build a solid full-proof execution plan.

The above six points provide foundations for platform modernization that we at Zensar learned first-hand through many large complex modernization engagements we undertook for our clients. This white paper will hopefully serve as a guideline to creating a failure-proof strategy for platform modernization.



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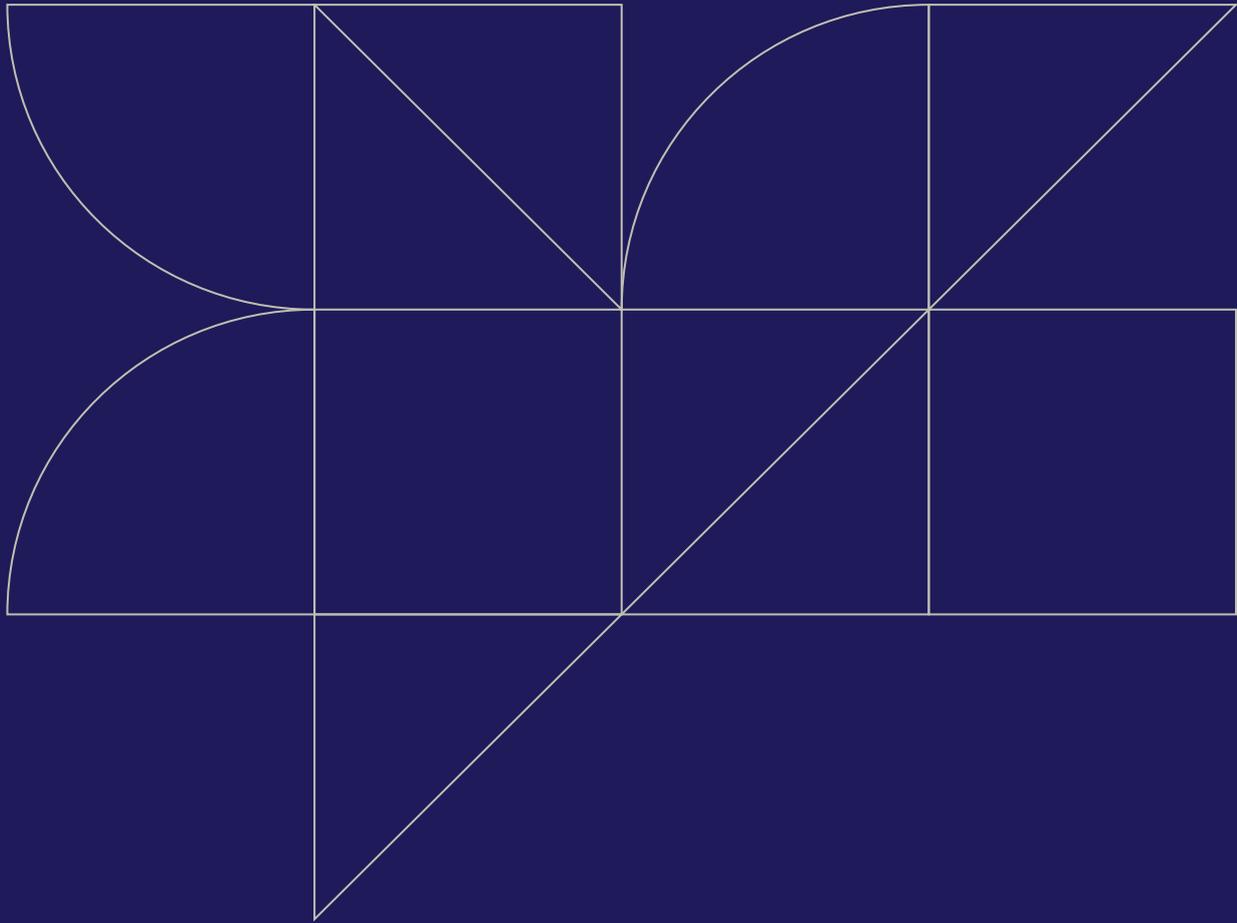
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Author



Suvojit Dutta

Insurance Solutions and Consulting
Leader at Zensar Technologies



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