Life Insurance Core Systems Transformation - Now or Never?

By Russ Bostick

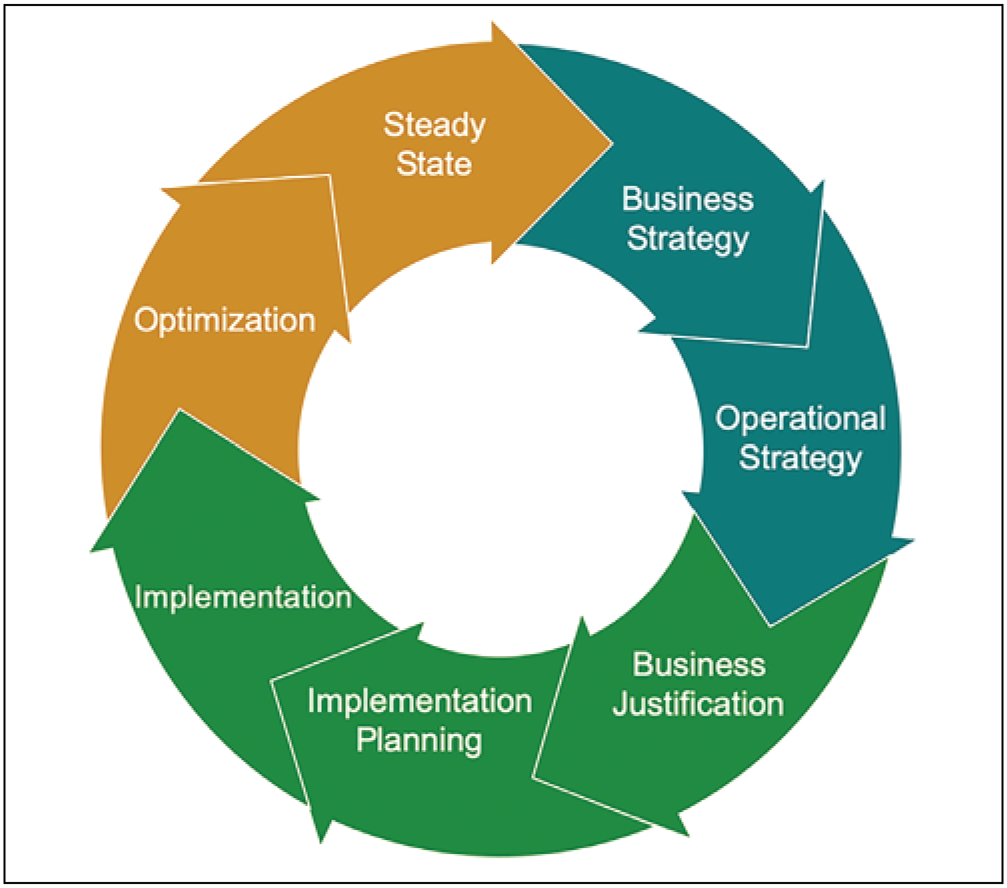
Until recently, life insurance companies have been less likely to undertake core IT transformational projects. The two major upticks were during the 90s, when Y2K loomed, and then again in the mid-2000s, when new product designs and riders drove insurer competition. Today, low interest rates, rising middle-class debt, and slowing consumer demand from baby boomers have dampened sales. Not surprisingly, those same factors have also dampened insurer interest in undertaking what can be an arduous and expensive IT modernization program.

What has changed?

I did say "until recently." So, what has changed? In a word, everything. There is now:

- a renewed focus on a growth business strategy
- a move toward managing the legacy in-force as a portfolio of differentiated assets
- a desire to simplify and ease the interactions between policyholders and agents and create a long-lasting customer experience
- an increasing demand for the bundling and unbundling of new life products, riders and services
- a broader set of options for managing open and closed blocks separately.

Life insurers are once again focused on a growth business strategy. In general, their updated growth goals are supported by the promise of accelerated underwriting, the popularity of indexed products, the introduction of riders that provide policy benefits to the living policyholder, and lastly, the expectation that millennials will embrace life insurance if it is easy to acquire and use.



The Legacy Challenge

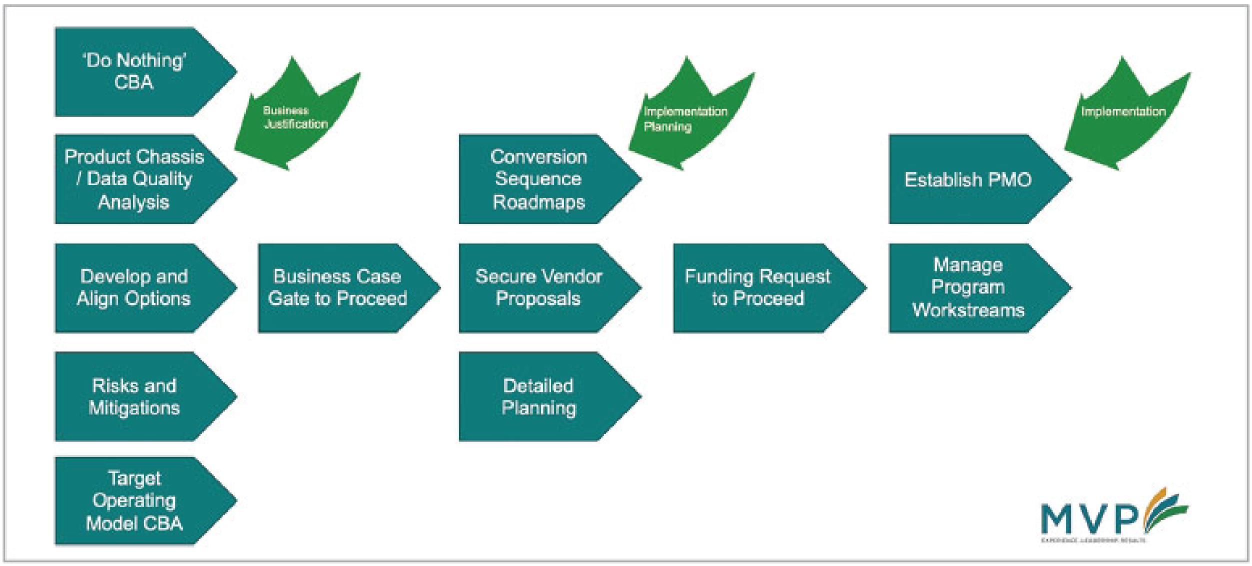
Unfortunately, most legacy systems aren't structured to easily manage a mixture of indexed products, a large number of diverse riders, new underwriting models, or mobile access to life insurance products before and after the sale. As a result, over the last three to four years, many life insurers have chosen to consider a life core transformation program.

Evaluating the conversion of the entire legacy in-force business is a daunting proposition for most life insurers. Armed only with a study and a promise about the total implementation costs, many insurer executive teams will repeatedly debate the risks and benefits of core transformation. For instance, IT will correctly note the risk of obsolete programming languages and systems. Product management and sales will state that they can't commit to the growth numbers already in place without new systems. Operations will suggest that converting everything is the only way for them to drive in-force unit costs down to meet pricing. Frequently every group looks at life core transformation as an all-or-nothing business case without considering the full range of options that a portfolio management approach could suggest. And without segmenting the portfolio, it is easy to defer the program until next year—again.

A portfolio management approach studies the costs, service needs, conversion difficulty, and likely roll-off of policyholders. For each definable block of policies, whether acquired or grown organically, a cross-functional team systematically looks at whether the growth strategy really requires that the block be converted. Perhaps it can be sold? Or services outsourced? Or the IT and Operations team can hire experienced contractors and train new hires? Or it may turn out that key business functions, like the customer and agent experience, can be migrated to the new customer experience being deployed along with a modern policy administration system. Although there are many approaches to performing a legacy portfolio analysis, the following "stage-gated" approach captures the information required and presents it for decision making in progressively greater detail.

Policy Administration for the Times

Most life insurance executives will agree that life insurance "ease-of-use" trails that of property-casualty insurers, 401(k) record keepers, and banking institutions. As a result, these other financial services firms capture a greater share of consumer wallets--and those same consumers end up carrying a far larger risk due to death or disability than they should. A modern policy administration system typically provides ready access to real-time data, the ability to build portals that serve web and mobile users with equal ease, and the integrations to reinsurer and proprietary underwriting decision engines. Modern systems enable configuration of product features and service operations using drop-down menus and current scripting languages that are accessible to trained business analysts. In total, these qualities provide life insurers with the ability to field a modern product line replete with diverse riders, rapid approval of insurance applications, and ease of use. They may also be the favored method for correcting legacy system product execution deficiencies and Day 2 gaps that were identified as part of the portfolio management analysis.



The Cost of Transformation

Core transformation programs do not have to be expensive because they do not have to address every single block of business with the same approach. Having segmented the portfolio according to its ease of conversion, as well as its financial and strategic importance to business profitability and risk, life insurers can implement an array of "tactical" strategies. Not only are there more than a dozen highly successful policy administration platforms available for new products, but there are also multiple, diverse options for outsourcing service and IT on legacy platforms, for converting them to a BPO vendor, or for selling the block and letting the new owner do the same. When armed with a portfolio analysis, insurers with a strong grip on their financial and strategic goals are far more likely to modernize their current open block platform when they have developed multiple options for managing their closed blocks.

In Summary

Life insurance core transformation is not a now-or-never decision. Life Insurers with a well-defined growth strategy can use a well-performed portfolio management process to launch the modernization needed for a growth strategy while also addressing closed blocks iteratively as the cost and benefit of in-force management options continue to evolve.

Russ Bostick is Managing Partner of the MVP Advisory Group, a unique consulting firm focused exclusively on the insurance industry. Russ has more than 30 years' experience in the Life Insurance and Information Technology industries. He can be reached at ***russ.bostick@mvpadvisorygroup.com****.*