Tech decisions FOR INSURANCE

Article

Survival Of The Fittest

Most insurance companies went into survival mode in 2009 to get through the economic collapse.

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There's little doubt in Steve Boyd's mind that 2009 was a year that called for turning to insurance technology to help ride through the storm. As Boyd, COO of Arrowhead General Insurance, explains, "When you are in a situation where you are dealing with fewer premium dollars going around, you need to have more of a razor focus on things."

And for many IT leaders, that razor focus was directed toward finding innovative ways to make their operations more efficient and profitable.

Kimberly Harris-Ferrante, vice president and distinguished analyst with Gartner, believes 2009 was unprecedented for the insurance industry. "There was less money being spent by the industry on technology," she says, and "that had a huge impact on project plans, vendor financials, and industry trends such as consumerization.

"Companies were looking at reducing the cost of operations with more tactical, short-term projects," she continues. "That led to a refocus on some of the core technology. The emerging technology that was starting to gain momentum in 2008 lost that momentum in 2009 as companies focused attention on the basics and running the business more effectively rather than on growth-type initiatives."

Arrowhead, for example, was more reflective in how it evaluated projects and opportunities. "From a technology perspective, we're doing more around trying to share technologies within our organization vs. the silo mentality of building out," says Boyd.

LESSONS LEARNED

Beginning early in the year, companies were trying to figure out what projects to keep and what to put on hold, points out Harris-Ferrante. "They realized they were making decisions on technology projects, and they had to know whether it would chill the business, whether customers would be dissatisfied, and whether it would drive up costs elsewhere," she says.

"The policy system is the heart of the business, but it's very expensive," says Harris-Ferrante. "They realized it had to be done even if it was costly. If they didn't, it could be a point of contention where competitors could surpass them when the economy turned around. One of the lessons learned was even though some projects don't have a short-term return on investment, [carriers] had to think beyond that.

"To make these hard decisions about what and what not to do, they realized business and IT had to be aligned, and in some cases there was no alignment." Companies have talked about business/IT alignment for years, but for many this was the first time such major gaps surfaced, she adds.

One of the main lessons insurers learned in 2009's difficult environment, according to Jim Dean, vice president, Robert E. Nolan Company, was to take a critical look at their vendors, the long-term contracts that were in place, and ways they could improve those relationships to increase value. IT departments increased the focus on discipline of financial and project management, Dean believes, by addressing questions such as: Do we need this particular project? Do we need it now? What's the bottom-line benefit? Does it help reduce operating cost or increase revenue?

INNOVATION

Most of the innovation work in 2009 was performed by software vendors, Dean contends, because research and development is their bread and butter. In terms of insurance companies, though, Dean asserts 2009 was the year to secure any active projects that had major strategic value and go slower on implementation of technology that was unproven or didn't have an immediate payback.

"Typically, innovation doesn't have immediate payback," says Dean. "It takes a while to integrate to the business operations before you start seeing payback. This wasn't the year that companies had the appetite for that."

Two interesting areas Dean saw carriers target were speed to market solutions and the use of analytics and underwriting, especially in the small commercial lines. "The smaller software companies are bringing a new way of analytic and quantitative analysis to pricing and underwriting, and more actuaries are examining it," he says.

One of the hottest innovation areas Harris-Ferrante observed this year was companies looking at Internet-based business models, including self-service to allow customers to take advantage of technology without building on to the cost structure.

However, the hottest area is Web 2.0, she says, with social networking as companies dabbled with iPhone applications, Twitter, and Facebook. "A year ago hardly anyone was talking about that stuff; now, you see it all over," she notes. "It's a low-cost investment to play with the new technologies."

One of the reasons carriers looked to social networking was to expand the company brand, particularly among younger consumers. "Companies are going out and marketing through the new technologies to get brand awareness and look more innovative with younger consumers," she says.

MOBILE APPLICATIONS AND SOCIAL NETWORKING

Nationwide's iPhone application and the subsequent follow-up with insurers USAA and State Farm are huge pieces of innovation from an IT perspective, indicates Chad Mitchell, a senior analyst with Forrester. They create a mobile platform and deliver self-service functionality to a smart phone.

Dean also points to Nationwide and State Farm developing iPhone applications for claims as innovations that attracted attention to the industry, but he stops short of stating such innovation is a game-changing event for insurers. "Those technologies are available, but do insurance companies want to spend their capital on that?" asks Dean. "Unless it's something that will help them control costs in the short and medium term, I don't think so."

"There are a lot of major-brand marketers in the retail world that would like to have a custom iPhone app that just touches what Nationwide and State Farm are able to do," Mitchell says. "To me, that would be the flagship piece of innovation, at least from a customer-facing perspective." However, he adds, if the innovation in 2009 is looked at in aggregate, in his view it wasn't a standout year.

Ellen Carney, also a senior analyst with Forrester, explains innovation can be broken down into three areas. "Certainly the sense of making more applications available in a mobile device is one—the consumerization of that experience for people within the insurance space," she says.

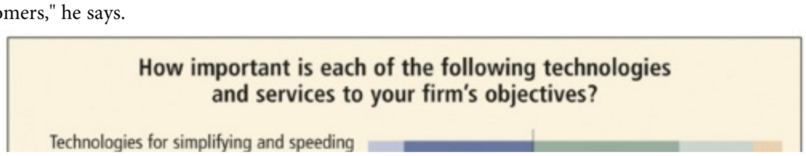
Another is social networking—Twitter or Facebook or whatever the next networking piece is going to be. "Whether [insurers] jump in with both feet is a little unclear as the whole idea remains a bit foreign to them," she points out. "The third area where there is a lot of interest and some trepidation is cloud computing. There is a huge amount of fascination with that."

Cloud has drawn interest as insurers try to reconcile how much money they have invested over the years in legacy applications. "One of the [companies] in a group we speak with every quarter reminded us it is used to this concept already with time tracking in payroll applications," she says. "[Cloud computing is] a new look at something [IT departments] have done and been comfortable with for a while. Are we going to see policy administration in the cloud any time soon? Probably not; it's more around applications than what is really running the business right now."

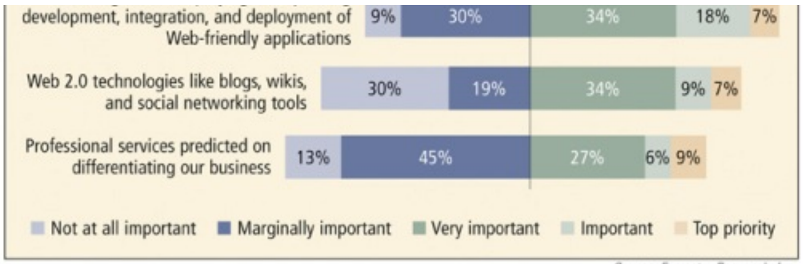
Four out of 10 auto and life insurance policyholders use some form of social networking on a monthly basis, Mitchell reports, but that could be as little as once a month posting to Twitter or Facebook.

The best use he has seen of social media involves catastrophe alerts through Twitter. "That's the right way to use it to better serve customers," he says.

He points out insurance leader Geico, a well-known brand



with, he claims, the highest advertising spend in the category, has 7,000 Facebook followers for its gecko mascot and 3,000 Twitter followers.



Source: Forrester Research, Inc.

INNOVATIVE TURNABOUT

An innovative project Arrowhead did in 2009 involved an unusual relationship with one of its vendor partners, ISCS.

"We wanted to do some large development of some policy admin billing systems, but it wasn't pressing for us to get it done this year," says Boyd. "We have a development team in-house that works with the ISCS product, and we saw an opportunity to enhance and improve the process. We had some excess resource, and in talking with [ISCS], it had some need from pending customers to build things out that exceeded their staffs. So, we actually did a reverse relationship, and we are the vendor for ISCS. We are doing development work with ISCS as an extension of its development department."

The benefit of this relationship for Arrowhead is the insurer gets to use whatever is built as well as bill out some revenue. Boyd points out ISCS benefits from some extra depth in its engineering ranks thanks to the Arrowhead IT team.

"That's not the most traditional relationship with vendors, but we both were able to scratch each other's back," he says.

Such an arrangement depends heavily on the basis for the partnership, according to Boyd. "Is it a vendor that is interchangeable and has no compelling interest in your strategic success, or is it a partner to whom you can explain the challenges and with whom you can do something together?" he emphasizes. "We have a handful of partners. They are able to come to us each year and ask what our pressure points are this year and how can they assist. It could be restructuring arrangements, spreading payments, delaying some deliverables, speeding up some deliverables, or what we did with ISCS, which is a nontraditional type of partnership."

SURVIVAL MODE

Budgets for 2010 are going to be flat, predicts Carney, which once again will affect innovation in the industry. However, "flat budgets are better than down budgets," she adds.

Mitchell jokes, "Flat is the new up." But some CIOs Forrester has spoken with indicate if there is business justification for a project or a demonstrated return on investment, they have the ability to get the money for it, Mitchell reports.

The Obama administration and the financial services scandals of late 2008 created uncertainty in terms of regulation for the insurance industry, Carney points out. "You wonder where the pressure might be from a budget standpoint to relieve some of the regulatory compliance initiatives," she says. "There is a lot of pressure on IT budgets right now in insurance."

Building and justifying the business case for major projects are table stakes for IT departments, Carney maintains. "Frankly, there is some skepticism on vendor-produced ROI, so carriers are going to rely on more objective sources," she says. "There needs to be more discipline in ROI calculation. If there is a business case for an innovation, insurers will move forward with it."

Mitchell believes insurance strategy groups are working on innovation projects that are based on efficiency and cost cutting. "They are not looking for revolutionary innovation, they are looking for evolutionary innovation that helps them reduce costs," he says.

The onus is falling squarely on IT departments, observes Carney. "We published a report in terms of what insurers were going to be spending money on," she says. "We found it interesting to see the number of IT shops that were responsible for driving business innovation."

2010 PLANNING

Harris-Ferrante doesn't see a big shift in budgets as we head into 2010 compared with this year. "[Gartner's] customers are telling us 2010 is going to be a little better, but budgets won't grow drastically compared with now," she says. "We find budgets will increase slightly, and there will be a slight shift from what we call running the business to a focus on growth and transformation and how to bring in more customers and revenue, new strategies for new markets, and new products."

The good news is while a good portion of 2009 budgets went to keeping the lights on, in 2010, the companies that reaped some benefits in 2009 will shift some of that cost savings to growth and transformation. "[Insurers] continue to focus on value-added services and differentiation, so those projects that were considered nice to have in 2009 are going to be funded in 2010," says Harris-Ferrante. "That's a big signal the industry is going to get back to a more competitive and innovative culture."

The insurance industry is in a stabilization period, Dean believes, but most insurers are going to hold off on hiring more people because they are unsure whether we are out of the recession entirely.

So, how does the industry accommodate new business without hiring more people? The answer, according to Dean, will be a focus on improving operational efficiencies. "It's a great opportunity for CIOs to look at the application and support systems and be proactive in working with the user community and bring things to the table that increase efficiencies," he says. "A lot of companies are maxed out production-wise. The current staff has had to accommodate the reduction, and to add more business is going to be problematic. If CIOs can come in with ideas on how to eliminate inefficient processes, maximize the technologies they have, and increase capacity of the operational staff, that will be a big win for them corporately."

Dean holds the opinion the economy has stopped its slide but just barely. "Wall Street improvements don't necessarily mean the economy has improved; it just means the opportunity to make money on the stock market has improved," he says. "That's good news because it increases consumer confidence, but from what I've seen, the economy lags behind [the stock market]. CIOs are going to have some time in the first part of next year to work with the user community to be proactive and increase operational efficiencies, so when the growth finally hits, they are prepared and ready for it."

TOUGH DECISIONS

In Arrowhead's experience, the insurer had a tougher time in 2008 than in 2009, recalls Boyd. "This year has been a bit of a rebound for us," he says. "I think it might be the nature of the business we write. I think 2008 was the year we put on the brakes, made some tough decisions, sold some nonperforming business units, tightened our belts, and got ahead of it. We made some decisions that were good for us in the long haul and positioned us for when the market comes back."

Boyd saw some signs in 2009 some of Arrowhead's markets had stabilized and even started to grow again. "This has been a transition year, and next year, we are hopeful it will be a growth year."

That said, the overall economy still will have to brighten further, though, suggests Boyd. He notes some of Arrowhead's lines, such as writing workers' comp in California, remain part of a volatile marketplace.

"Certainly the economy is having an overall impact, but even before that we saw a softening market that made pricing tough, which meant we had to focus on things such as innovation," says Boyd. "We sell through independent agents, so we need to be easier to do business with and differentiate ourselves from 50 other companies selling the same product."

Other fallout of the recession—layoffs and not replacing retirees—had an impact on intellectual property, according to Harris-Ferrante.

Some companies were forced to look at outsourcing as they tried to find cheaper ways to maintain systems or fill gaps when they let people go, she adds.

There were plenty of different issues, for insurers to deal with, sums up Harris-Ferrante. "None of these were things we've never seen before, but they were things that were more impactful this year," she says. "We've had similar issues here and there, but all these happened at one time as companies struggled to make hard decisions."
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