Insurance Carrier Core Systems in the Cloud

A Novarica Research Partners Program™ Report

Underwritten by OneShield Software

Executive Summary

The insurance industry is past the tipping point. Cloud adoption rates have increased with an overall high level of satisfaction among cloud customers.

In a recent Novarica study, 26% of the P/C companies surveyed reported moving one or more core system components to the cloud. Moving core systems to the cloud is not only broadly acceptable, but is trending towards the more common implementation choice.

In discussions with insurers who have already moved one or more core systems to the cloud, Novarica found:

- Preconceived or initial concerns were usually overstated or unwarranted
- Implementation project issues that arose were no different than with in-house core system implementations
- Various positive benefits to cloud implementations
- Some issues with change management and responsiveness post implementation

Core systems moved to the cloud are staying there. None of the insurers interviewed for this report indicated that they were moving systems off the cloud.

This report presents and discusses the findings of a survey of 9 P/C insurers and 1 L/H/A insurer, all of whom have moved parts of their core systems onto the cloud.

This report is a product of the Novarica Research Partners Program, which enables industry sponsors to underwrite surveys on topics of interest. These surveys are conducted using the same methodologies and with the same respect for participant privacy as Novarica's independent surveys and reports.

Underwriting sponsors have input on question design and general characteristics of target respondents only.

Novarica conducts the survey and analyzes the results independently. Underwriting sponsors do not have draft approval or other ability to influence content of the final report.

Core systems are moving onto the cloud

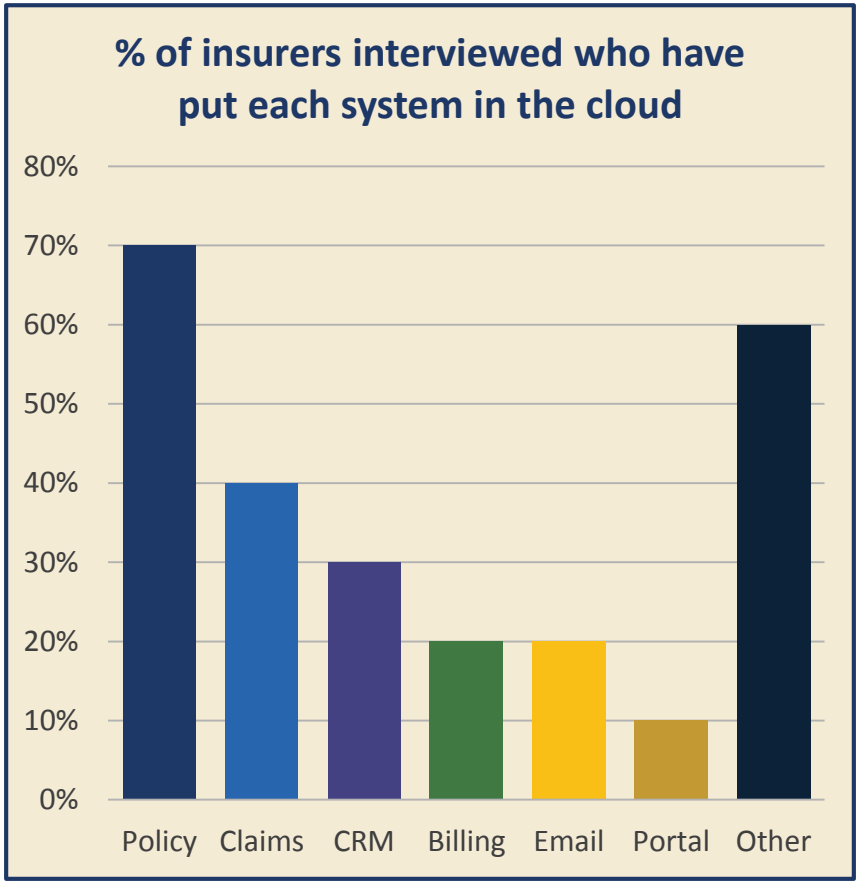
Moving to the cloud does not require a full suite implementation

Start Slow
Companies often gain confidence in the cloud by learning from lower risk cloud implementations or piloting a single component in the cloud.

Other, ancillary services, such as printing, can be located independent of core system location.

Integration
Companies replacing components have found that core systems can interface responsively with other core components from the cloud

Capabilities First, Platform Second
Solution capabilities still drive decisions. Cloud capabilities are a secondary factor but are becoming a significant filter in the decision process.



Cloud is the strategic direction for core system deployments

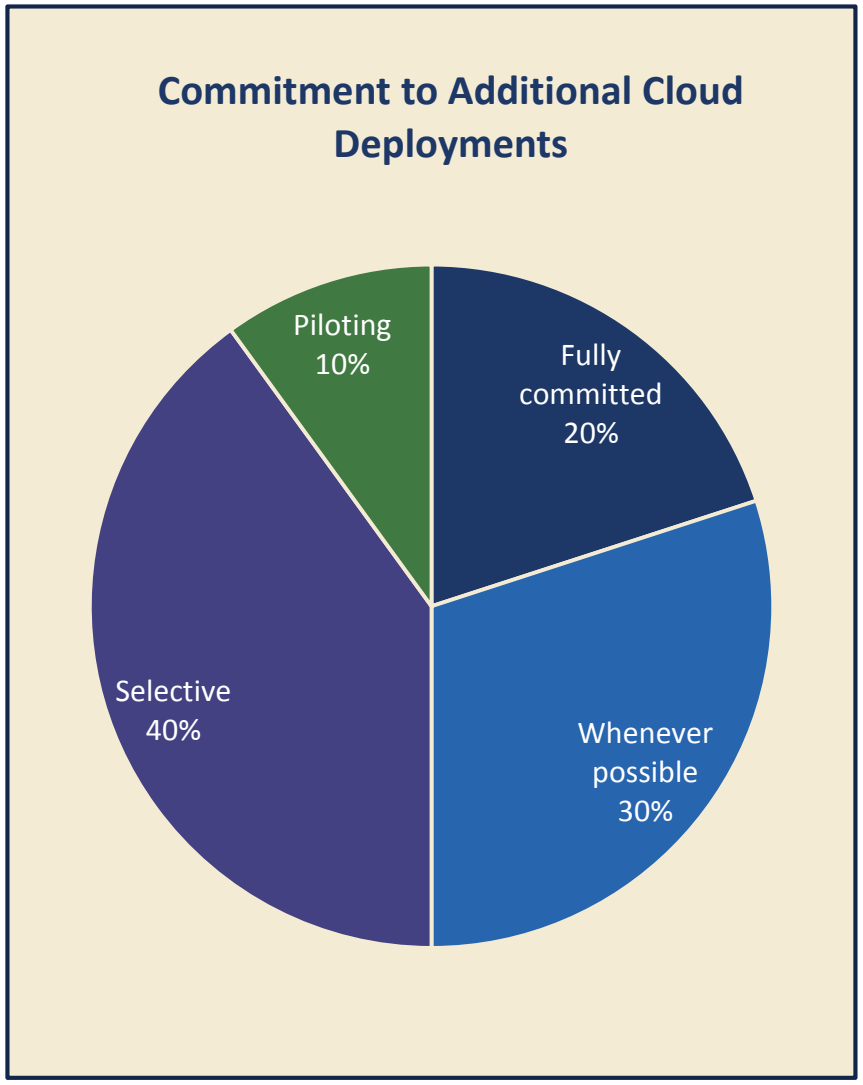
CIOs say…

We utilize the cloud whenever possible

We were committed to building as much of our technology platform in a SaaS model as possible

Some business capabilities are more mature than others, standalone or easier to integrate and switch out. With the current comfort level we will expand our view to the larger implementations like core systems (billing, claim, policy)

I set the direction when I arrived … that we were moving to cloud supported operations for hardware and software



Preconceptions create resistance to cloud migrations

Loss of Control?

The number one inhibitor to adoption is a fear of losing ownership/control. Carriers should ask how cloud providers can meet data audit requirements.

Concerns over security are often based on a lack of understanding of security measures in place by cloud providers.

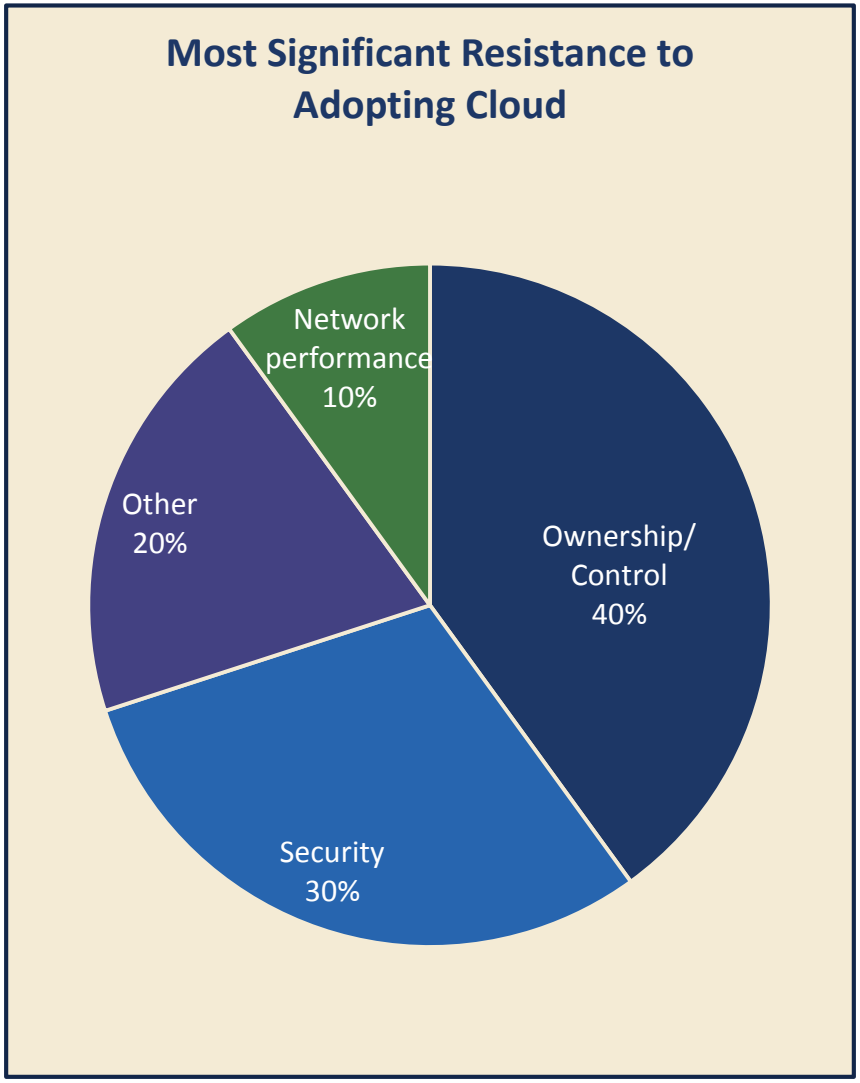
Loss of Status?

Objections raised are often not the true concern. What some staff actually fear is job loss or that their skills won't transfer to the new environment.

CIOs Say

"Didn't take much convincing that the partner knew how to do it"

"Target mature platforms with minimal integrations and data privacy concerns to allow more time for crawl, walk, run approach"



Clients believe cloud based solutions are more secure

Owning Security is Not Necessarily Safer
Security is and should continue to be a major focus for the insurance industry.

The risk of attempted breaches for in-house installations are just as high as for cloud based implementations .

Cloud Providers Generally Have Better Security
Cloud based solution providers, however, often have more rigorous security practices and invest more in security than carriers do.

A Different Approach
The cloud requires managing a different set of security risks. Instead of managing internal security staff retention and training, cloud implementations require oversight of compliance and execution through audits and certifications.

CIOs say…

We see that the providers are maturing to a point where their security practices are more mature than internal

[W]e have not experienced any major problems and continue to monitor

SaaS provider has made major investments in all aspects of security

We have used cloud implementations for many other systems and services with great success so there was no fear of using cloud to host these services

Organizational resistance to the cloud can be overcome

Changing Mindsets Not Difficult

8 of the 10 study participants said it was not hard changing people's mindsets to accept the transactional model inherent in the cloud.

One participant, who currently has several ancillary systems on the cloud and is starting to set the stage to move his core systems, argued that changing people's mindsets was not the issue: the issue was merely making the business case.

Business unit and IT reactions to moving core systems to the cloud have been generally positive.

- The most common reaction is being pleased with new and better technology. This often reflects the modernized core system and not that fact that it was implementation in the cloud.
- The other reaction is not caring – people just want to be able to do their jobs with minimal fuss. Most employees and agents don't even know where the data centers are or how all the technology works together.

Addressing Concerns

Critical concerns were addressed via client references, contractual SLAs, and gaining experience either through pilot projects or acceptance criteria.

Objections to cloud proposals are best overcome by defining and communicating the business case.

IT organizations need to change their mindset from thinking about managing an environment to thinking about managing service delivery.

Moving to the cloud leads to cost reduction and capability improvement

CapEx to OpEx

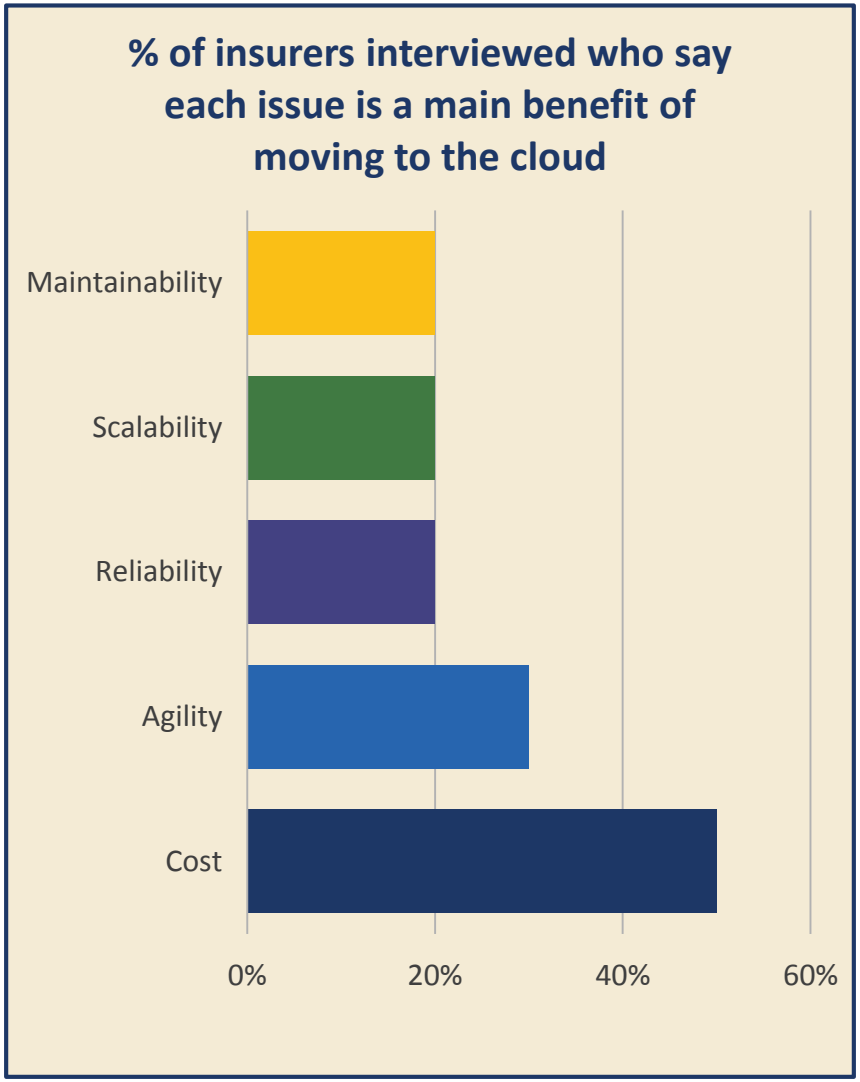
The most often cited benefit was the lack of hardware costs, including capital expenses for hardware and management software, and operational costs for management.

Start up companies often commit to full suite implementations in the cloud to minimize investment and accelerate go-live dates.

Consider All Elements of TCO

The cloud may appear expensive. The cost of providing comparable availability and BCP services should be addressed.

Insurers who have quantified benefits reported that putting their systems on the cloud have made it significantly simpler to operationalize the cost structure and provide transparency about how money is spent.



Detailed planning and due diligence are required for success

Costs and accountability for core system performance can be clearly defined

Communication
Effective communication between carriers, software solution and cloud service providers is critical. Carriers should thoroughly review the proposed change management and reporting processes.

Responsiveness
Response time for change requests and upgrades disappointed some cloud clients. SLAs for support and services levels should be defined in detail and thoroughly understood to avoid surprises.

Architecture
Architects need to determine the security and enterprise data architectures very early in the project to effectively implement cloud based core components.

Connectivity
Establishing connectivity and testing third party interfaces is time consuming and often under estimated.

CIOs say…

The better we get at defining our issues the faster things get resolved

These concerns (moving core systems to the cloud) were no more or less than other business issues that we deal with in selecting / implementing systems

Core systems are staying on the cloud

Not an Interim Solution

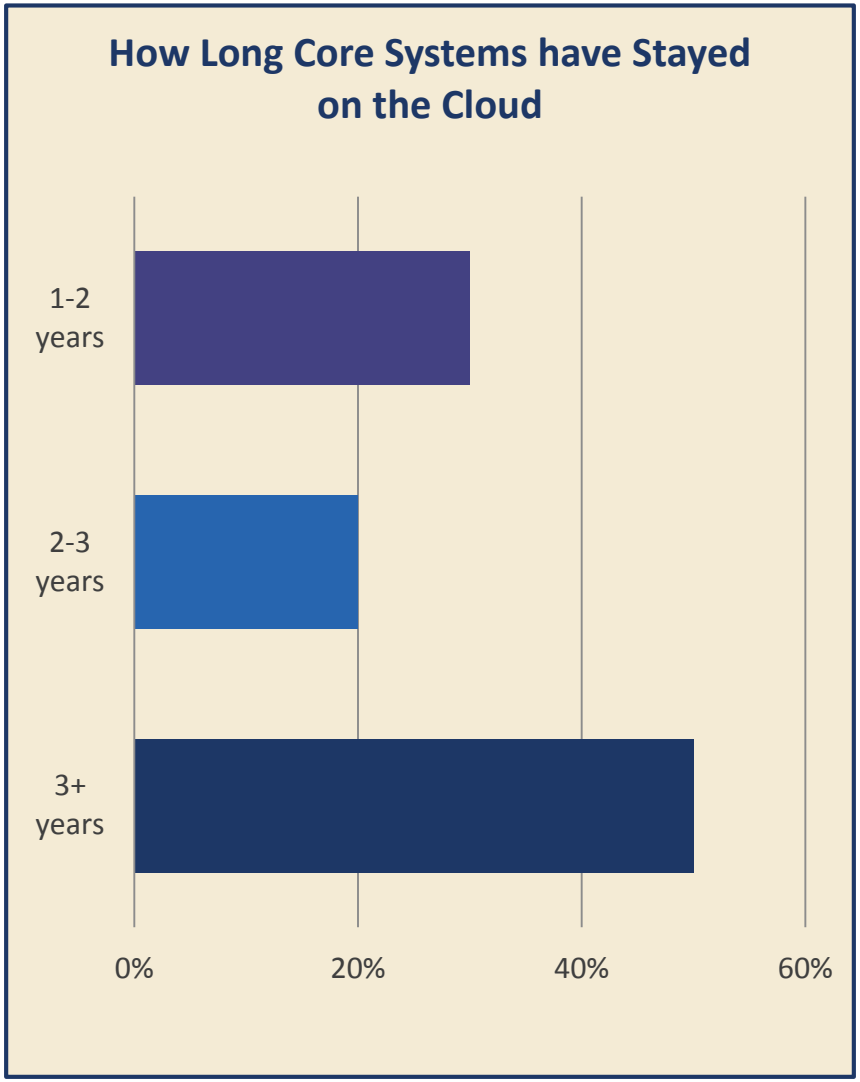
Despite the concerns that insurers initially had about putting their core systems on the cloud, once they're on the cloud, insurers want to keep them there.

Cloud Systems Stay Cloud Systems

In Novarica's experience, many insurers initially plan to install in the cloud then move in house later (for speed to market) or install in house and then eventually move to the cloud (as they gained more comfort.) These intended moves generally don't happen after investments are made.

Plan Accordingly

Carriers should think strategically and establish a future state vision, then work aggressively to get there.



Key Points

- Moving core systems to the cloud is less risky than often thought.
- Carriers that have moved core systems to the cloud report net positive benefits consistent with expectations.
- Cloud based implementations lower total costs and improve response time, availability and recoverability.
- IT organizations often overestimate how hard it will be to move core systems to the cloud due to misinformation or lack of knowledge.
- Preconceptions and implementation risk are best addressed by due diligence during the selection process.
- Organizational resistance is best overcome by communication of direction and cloud benefits.
- Once insurers install a core system in the cloud, it is unlikely that they will move it back in house.
- The percentage and maturity of cloud based implementations varies widely by solution provider.

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We publish frequent, independent, in-depth research on trends, best practices, and vendors. Our research projects are directed by senior executive-level experts, and leverage the knowledge of more than 300 insurer CIO members of our Research Council.

Our Strategy-as-a-Service advisory services provide on-demand phone and email consultations on any topic in insurance or technology. Our clients have told us it's like having a team of experts down the hall, for a flat annual fee that is a small fraction of the cost of a single employee.

Our consulting services include vendor selection, benchmarking, project assurance, and IT strategy development. They are based on our deep knowledgebase, extensive relationships, personal experience, and proven methodologies. Our clients get rapid, actionable insights and guidance, delivered directly by our senior team.

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OneShield's portfolio of standalone, subscription-based and cloud-based products include enterprise-class policy management, billing, rating, claims administration, product configuration, and business intelligence and analytic solutions leveraging an open architecture and single data model. Specializing in Personal, Commercial, Life and Specialty Markets — OneShield has a combined 46 lines of business in production among clients based around the world.

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