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Total Cost of Policy Administration Ownership

Overview

Technology has advanced drastically over the last 20 years. Smartphones, imaging, and remote connectivity are all changes that have positively impacted the way insurance companies do business. In many cases however, the core policy administration systems that many companies use to process business on a daily basis are based on technology which is more than 20 years old.

Understandably, insurance carriers are challenged to maximize every dollar of their IT budgets, which in some cases are holding carriers back from making investments in their policy administration systems. However, are carriers missing the opportunity costs and potential expense savings that would come along with a modern policy administration system?

To provide insurers with actionable data, Ward Group conducted a survey, sponsored by OneShield, to capture the total cost of ownership for policy administration systems at P&C insurance carriers.

Key Themes

Three key themes came to light as a result of the analysis:

1. P&C Insurance is Still a Legacy System Based Industry

2. The Cost of Being Current versus Missed Opportunities

3. Carriers with Modern Systems are Seeing Competitive Advantages

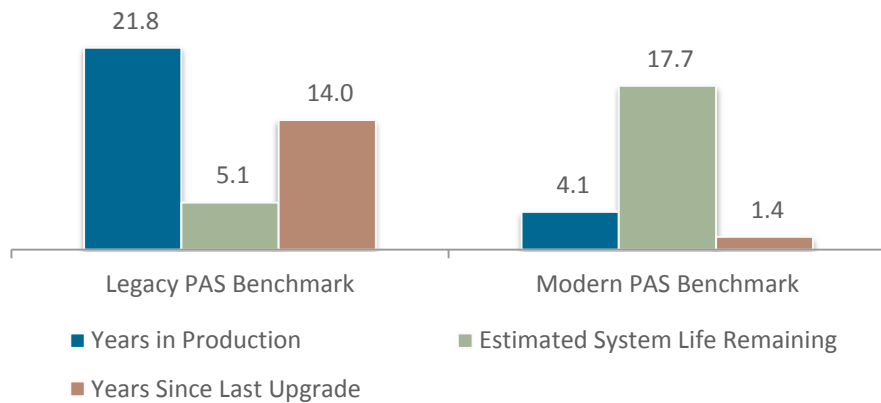## P&C Insurance is Still a Legacy System Based Industry

Of the policy administration systems surveys completed, 70% were considered legacy systems. As the data shows, the average legacy system has been in production for nearly 22 years, and in many cases, hasn't been updated since the early 2000's.

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System Life Span

21.8

14.0

5.1

Legacy PAS Benchmark

17.7

4.1

1.4

Modern PAS Benchmark

■ Years in Production   ■ Estimated System Life Remaining
■ Years Since Last Upgrade

Of those systems identified as legacy, 48% are viewed as on-going systems, with no current plans to replace or retire them. A contributing factor to this lack of movement to modern policy administration systems is the control element. A majority of legacy systems (54%) have been developed and supported internally for many years. These systems have been customized to meet the carrier's needs.

An overwhelming majority of modern policy administration systems (85%) are developed externally by vendors and require the carrier to give up some of the ability to customize efficiently. Accompanied by the skill gaps in programming language, some carriers see the transition to a modern system to be a significant challenge.

Legacy PAS

46%

54%

Modern PAS

15%

85%

■ Internal Development
■ Vendor Product
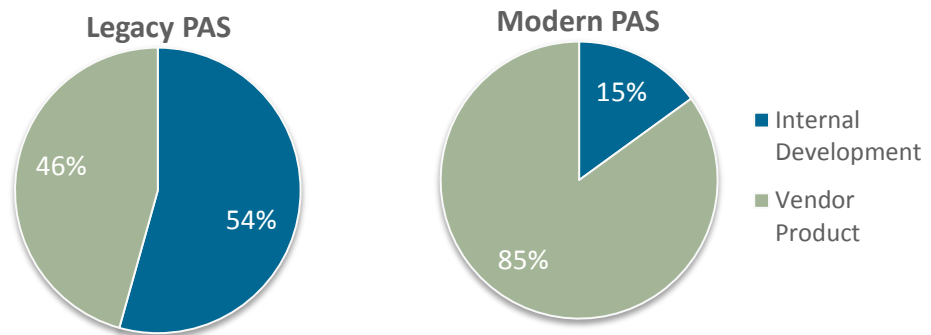
Of the modern policy administration systems surveys completed, only 50% were fully implemented while 30% were only partially implemented. The remaining 20% were still in the development stages. The average modern policy administration system replacement project takes an average of 4.25 years, typically about 6 months longer than estimated projects.

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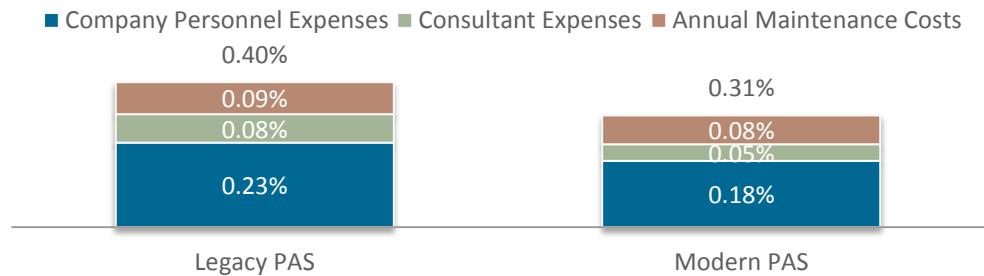### The Cost of Being Current versus Missed Opportunities

Upfront development costs are a part of all new policy administration development projects, a component being the licensing agreement. The data showed approximately 60% of all modern policy administration systems were on a perpetual license. This average one-time cost was approximately 0.33% of annual DPW.

Term licensing expense varied by company, but was an average of 0.12% of annual DPW. The term license was a more popular choice for lower premium volume systems. All large premium volume systems chose a perpetual license.

Once fully implemented, the ongoing annual expense associated with modern policy administration systems was 22% lower than legacy policy administration systems.
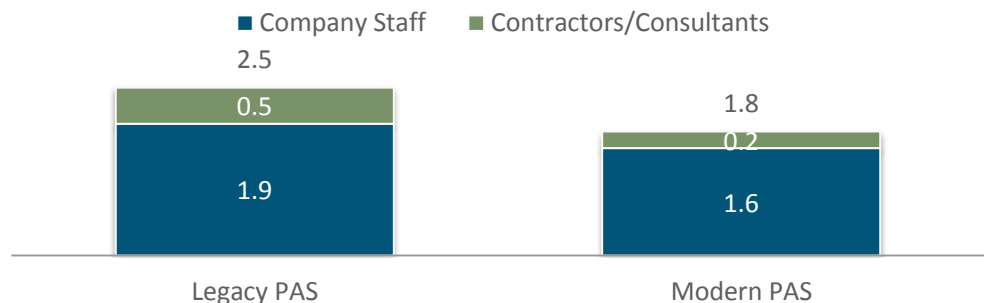
Expense as a % of DPW per System
Fully Implemented DPW

■ Company Personnel Expenses ■ Consultant Expenses ■ Annual Maintenance Costs

	Legacy PAS	Modern PAS
Total	0.40%	0.31%
Annual Maintenance Costs	0.09%	0.08%
Consultant Expenses	0.08%	0.05%
Company Personnel Expenses	0.23%	0.18%

Modern policy administration systems also saw fewer staffing resources required to provide ongoing support per $100M of premium written.

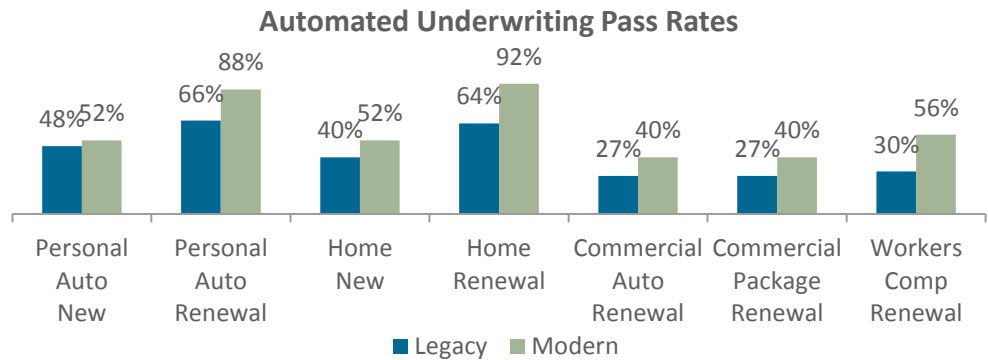**Staffing Resources per $100M DPW on System**
Fully Implemented DPW

■ Company Staff ■ Contractors/Consultants

	Legacy PAS	Modern PAS
Total	2.5	1.8
Contractors/Consultants	0.5	0.2
Company Staff	1.9	1.6

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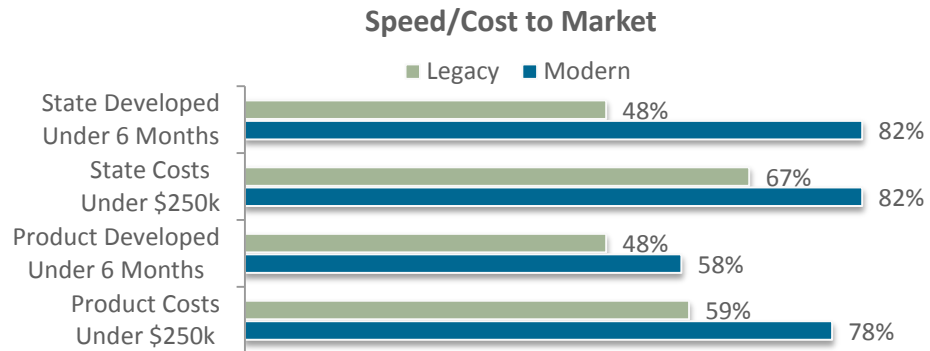
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Carriers with Modern Systems are Seeing Competitive Advantages

Modern policy administration systems are not only showing lower operating expenses and staffing levels. Also, benefits became apparent across the organization. In underwriting, carriers on modern systems indicated higher underwriting automation pass rates on both new policies for personal lines and on renewal for all lines.

Automated Underwriting Pass Rates

Category	Legacy	Modern
Personal Auto New	48%	52%
Personal Auto Renewal	66%	88%
Home New	40%	52%
Home Renewal	64%	92%
Commercial Auto Renewal	27%	40%
Commercial Package Renewal	27%	40%
Workers Comp Renewal	30%	56%

In sales and product development, carriers on modern systems saw quicker IT related speed to market and lower IT cost to market for both new products and new states, giving the carrier the ability to adapt to changing market.

Speed/Cost to Market

Category	Legacy	Modern
State Developed Under 6 Months	48%	82%
State Costs Under $250k	67%	82%
Product Developed Under 6 Months	48%	58%
Product Costs Under $250k	59%	78%

Summary

Even though it has become apparent over recent years that modern policy systems have numerous advantages over legacy systems, the industry is still cautious in moving forward with the core system overhauls. How this impacts their place in the industry is yet to be seen. Increasing competition, changing customer preferences, and evolving insurance markets are going to require the ability to adapt quickly or be late to the party.

ABOUT THE AUTHOR

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