



Doman Vaughan Consulting
1/49 Meriton St.
Gladesville NSW 2111

Phone : 61-2-98161540
Fax : 61-2-98161542

ABN : 95656395821

Smart insurance systems solutions without waste

Faced with increased competition, commoditisation of traditional offerings and changing consumer needs, insurance companies are demanding that their IT systems be the key business enabler to provide an innovative response. IT departments, on the other hand, are faced with enormous challenges to respond whilst hamstrung with a patchwork of product systems that are complicated, poorly integrated and expensive.

Realising that there is no quick fix, forward looking insurance companies are making significant investments in a more modular approach to architecture. Rather than focussing on technology to solve tactical problems, they are adopting a long-range view of the overall enterprise architecture, resulting in lower cost of ownership and decreased lock-in to any particular technology. This enables them to make sensible decisions between ripping out old systems and replacing them or leaving them in place and leveraging what is there.

Ripping out and replacing the old

Although ripping out and replacing legacy systems seems attractive as new visions of ease of use and flexibility are exhorted, it has key disadvantages. A one size fits all IT approach makes the

scope too broad, resulting in ballooning costs and untenable delivery dates. A case which comes to mind is that of a major general insurer where the new system that was replacing a number of legacy systems has now joined them as an additional legacy system. Quite simply the business moved on whilst the five year build and conversion was taking place.

There are success stories of “out with the old, in with the new within a year” and these are the ones the vendors love to write case studies about. Look closely, however, and you will find that it is usually a subsystem or a product system of a small insurer not the replacement of several core insurance product systems.

So, what strategies are companies using to replace the old green screen insurance systems that are hampering business performance?

Leave and leverage

Rather than ripping out and replacing they are shrinking their legacy systems gradually by removing functionality into new modules and in some cases giving those green screens a new front-end with additional functionality. These new modules bring together similar

functionality that can be used by a number of systems. This is done progressively until the legacy system eventually serves only as a partial database or is retired.

Rating engines, for example, have existed for some years outside product systems, overriding or supplementing product systems rating functionality. A key advantage is that the rating rules for several products can be maintained and updated in one place without the need to change each product system.

The more innovative insurers are externalising hard coded product information within legacy systems into a separate module. The business can accelerate this process by examining their portfolio of products and services and rebalancing it in light of the value of variety (from a customer's viewpoint) and the cost of complexity. In doing this they will help define a clear product architecture that brings together product-related information into a single place that can be referenced by other systems. Often called product configurators, these pieces of software automate and isolate the complexity and time taken to define new customised products.

A challenge often faced with multiple product systems is the ability for service staff to get a single view of what products a customer has. This can be done by creating a separate customer module that acts as an index to legacy system customer records and presents a single list of business relationships with that customer. It can be extended to act as the new centralised customer database and used as a vehicle to gradually get rid of legacy systems.

This increased modularisation now paves the way for the next step in smart sustainable enterprise architecture - that of a Services Oriented Architecture (SOA). According to Forrester research, in 2005, 89% of large organisations were moving towards a services oriented architecture. Note the emphasis is on "moving towards" – this is a gradual process.

Simply put, SOA it is a collection of services that communicate and thus integrate with each other. The services referred to in SOA are business services, e.g. "get customer data and policy details". These service points can then be combined to perform a business process, e.g. "renew customer motor insurance". The key advantage is reusability and of course the promise of giving new life to legacy systems by packaging parts of tried and tested applications as a service.

The hype about SOA is at its peak and no product, no matter how much a vendor promises, will automate an SOA. SOA is architecture (a set of best practices) and it takes persistence, hard work and discipline.

Nor is SOA the answer to every integration challenge. In the meantime insurance companies are still saddled with older integration architectures like Enterprise Architecture Integration (EAI). Again, forward looking Insurers are looking for ways that SOA can compliment existing architectures and are in some cases implementing the Enterprise Service Bus (ESB). ESB is a Web Services aware revitalisation of traditional EAI solutions.

Where does this leave you, as business owner?

As business owner who has just been presented with the proposed new systems architecture, how do you know that it is leveraging your current IT investments and will support your needs for tomorrow?

Your systems architect should be able to demonstrate the following:

Which business needs are driving their architectural design? (e.g., speed, flexibility, reduced costs, product flexibility)

- What are the key issues and challenges they face transitioning towards this architecture? (e.g., restructuring applications, data migration, skilling, staff training, time taken?)
- What in concrete terms can this architecture do for the business? (e.g., customer needs met faster, quicker access by staff to information, faster time to market with new product packages or product changes)
- What is the ROI on the new investment and does it take into account retirement of existing systems?

- Is there a clear justification for building solutions (in-house) versus buying?
- Is there a transition plan with major milestones that includes:
 - the impact on service staff,
 - leveraging of current IT assets
- Have they provided references to others in the insurance industry or related industries who implemented this approach successfully?

In summary, we have taken a new look at old “rip and replace” vs. “leave and leverage” philosophies in light of the trend to increased modularisation of system components. In addition, as business owner this provides you with guidelines to help you assess system architectures in terms of business outcomes.

About Doman Vaughan Consulting

Donna Vaughan, an experienced management consultant, and Desne Doman, an experienced senior manager in IT, have formed a specialist management consultancy focusing on:

- Breakthrough business and operating model design,
- Rapid program set up and launch
- IT portfolio investment and sourcing strategy