Bench Strength

Grading the skills of the IT staff is one of several steps insurance carriers need to take before moving into the brave new world of core systems replacement.

By Robert Regis Hyle

As technology changes the way insurance carriers do business, companies are forced to adapt to those changes. But the technology is not the only thing changing; so too is the way carriers go about purchasing integrated solutions—particularly those core solutions that are so vital—and expensive—to buy.

One issue insurers deal with is whether they have an IT staff to handle such a precarious implementation. If an IT staffer has worked only for your company in his or her career, it is unlikely that staffer knows the full range of the new systems. Most important, it's unlikely that person has ever been involved in a core system replacement.

Stephen Applebaum, senior analyst at Aite Group, doesn't believe a strictly internal well-established IT staff—what he calls a legacy team—can properly represent an insurer in the software marketplace. For that, he maintains insurers need a world view.

"The world view typically comes from the increasing shift of individuals from companies, which you see more of these days than you did before," says Applebaum. "As a


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result, there is a lot of what I call knowledge sharing across companies. It is important that your IT team has this world view."

Applebaum also believes it is valuable for a carrier's IT team to have some members that previously worked on the vendor side of the industry.

"It gives you the ability to assess a vendor's pitch, kick the tires at a detailed level, and understand what they are saying," says Applebaum.

Depending on the size of the insurance carrier, companies might like a global view.

"The market tends to be dominated by domestic carriers, but there's a world beyond our borders and it is getting smaller very quickly," says Applebaum.

Charlene Malonie, assistant vice president, solutions architecture for The Dominion of Canada General Insurance, takes pride in the fact she hired architects who had worked for software development companies before joining The Dominion.

"I also was fortunate to find ones that had worked in insurance," she says. "We recognized that our existing teams didn't understand new technology or new architectures. They didn't have the experience with product selection that we needed to dig into the questions."

When it comes to new solutions, Malonie believes insurers need to look at the framework and configuration, whereas in the past insurers typically looked at gap analysis during the selection process.

"Today you have to ask what the capabilities are, what flexibility and features the business ultimately wants, and assess future capabilities as well as what currently comes out of the box," says Malonie.

Having an older staff has proven to be a driver for some companies to get away from their legacy environment, particularly if they use COBOL systems and employ some aging COBOL programmers who may be looking to retire in the next five to 10 years, according to George Grieve, CEO of CastleBay Consulting.

"They won't have anyone who knows how to work on those systems," he says. "Sometimes a lack of a set of skills is part of the business driver."

Carriers, particularly smaller ones often ignore legacy asset evaluation before software selection, according to Grieve.

"The issues of what am I actually looking for, what am I going to replace, and how will the new system's functional footprint overlie the existing functional footprint get pushed off toward the end of the selection process rather than before the selection process," he says.

Not many companies put together a modernization roadmap, which relates to software strategy and in turn a business strategy, adds Grieve.

"Most companies that [CastleBay] walk into, you can't ask for a copy of the business strategy, a five-year systems strategy, and what their roadmap looks like," he says. "Most of them don't have a context of what they are doing. They have a list of perceived wants and needs that drive the project."

THE SELECTION PROCESS

More insurers are turning to third-party providers for guidance when beginning their search for the right software package as they undergo a core systems replacement. Grieve believes the reason for this is carriers recognize they don't have the internal expertise to handle the selection process for such a major undertaking.

"If I'm a carrier and I conclude—with a high degree of evidence on my side—that I don't know how to select a software vendor, I'll have a consulting company help me with that," says Grieve. "But, I may not know how to select a consulting company, either."

Grieve maintains it's a good sign when insurers turn to others for help, but he points out it does cost the carrier time and energy. The carrier may or may not make the best decision in terms of the consultant they choose, he adds.

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>
> —Charlene Malonie, The Dominion

Selecting a new core system is a high leverage project and insurers can't afford to make a mistake, points out Grieve. However, some insurers compound the problem as they seek the right consulting partner.

"Instead of agonizing over which software solution to go with, carriers instead are agonizing over which consulting group to hire," says Grieve. "Rather than running around the software market themselves, they are trying to make sense of a growing consultancy marketplace."

The result is it now takes longer than ever for insurers to complete what is typically a multi-year undertaking when replacing core systems.

"Some carriers are taking six months just to choose a consulting partner," says Grieve.

The role of the business analyst is vital in determining what the requirements are and if the new systems satisfy those requirements, explains Ellen Carney, a senior analyst for Forrester. The data conversion portion of a core systems implementation is a huge discussion point as well, particularly determining who is going to do the work.

"Is it the IT team, a third party or the application vendor?" asks Carney. "Data conversion is a huge element. Hopefully in the run up to a new core application deployment the carrier is addressing data quality."

Applebaum agrees the process for

insurers shopping for new core solutions has changed in recent years, but he's not sure it has changed for the better.

"Previously it was the line-of-business responsibility to do a core system replacement," he says. "The VP of claims would huddle with his partner, the IT manager, and typically they would do one of two things: An RFI would be sent to everyone they could find, but they would have a predisposed idea on what companies would be on the short list."

Such a process may look formal, according to Applebaum, but he doesn't believe it was as rigorous as it needed to be.

"It had a formulaic look and there was a process involved, but at the end of the day I believe the pre-supposed outcome was well known in advance and that doesn't make for a healthy analysis," he says.

The second change, points out Applebaum, is the emergence of the procurement process.

"The line-of-business heads aren't left alone anymore to make major procurement decisions, but rather carriers are forming procurement teams," he says. "It's good news/bad news for the vendor community. The good news is [the procurement teams] tend to be open minded, detail oriented, and research driven."

Applebaum believes this process is more scientific. Also, there are no presuppositions about who might be on the short list. These teams also are developing skills in terms of leveraging their size.

"Prior to 1990, this was a relationship-driven industry," he says. "People spent years developing a trust relationship between vendors and carriers. Those relationships quite often resulted in business. But in the world of procurement, the relationships are gone and the scientific examination process is stronger."

Applebaum believes today's better procurement process forces vendors to prove they have a product that holds up under scrutiny.

The process gets more confusing when you consider the style of solutions that carriers have to consider, including recent developments in cloud computing. Carney reports she spoke with a tier-one carrier and was shocked to learn what the carrier was interested in putting into the cloud.

"There seems to be more willingness to test the waters," she says. "I think it's going to be a long while before we see policy administration systems in the cloud, but you could see billing first and maybe claims management second. There obviously is potential for claims estimating in the cloud, but it will be a while before we see policy administration go that way, except maybe for expanding to new markets or a new product line."

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VENDOR ASSISTANCE

The good news for insurers looking to replace their core systems is there are vendors who not only write good software but also have good implementation processes and track records, points out Grieve. The bad news is there are very few of them.

"There are some vendors with good software, but they don't have the attendant methodologies and implementation practices that are a match for the quality of the software," he says. "The software has gotten better faster than the implementations."

Carney maintains there is a big expectation among carriers that the vendors are going to guide them through these processes, but she believes it is important to get those expectations in writing.

"There are situations early in the process where you get the vendor's A-team, but when it comes to the implementation you might get a less stellar team," she says. "That's certainly a concern insurance IT shops should have. They need to get some assurance about the caliber of resources the vendor is going to apply to make the project successful. IT organizations should also have their own trusted integrators involved in the project, too."

If you are a tier-two or tier-three carrier looking to replace one or more core system platforms, it is imperative to find a vendor to support all the installation and maintenance needs.

"I can't think of a single [smaller] carrier that has enough in-house resources to support such a project—starting from design and moving through implementation," says Applebaum.

How important is it that your core system advisors bring those skills with them as opposed to partnering with yet another company, such as a third-party integrator?

Applebaum believes it is becoming less important as many of these vendors have done a good job of creating certified consulting partners.

"[The vendor] ensures that they are well-trained on the product," he says. "When a company needs those services the vendor will point to their list of partners. There are some vendors that have those resources in-house. In-house resources are better informed with a deeper, native understanding of products. That's a factor a company has to carefully consider as they look at systems replacement."

The Dominion selected the OneShield Dragon system for its policy administration system and Mitchel Maykel, senior marketing manager for OneShield explains that it was important for the carrier to rely on OneShield to help transition knowledge, and build up expertise within the carrier's IT organization.

"How effectively you do that dictates how long your dependency lasts," he says. "Some organizations either have a more concerted effort toward that or more levels of success. I know of organizations that—10 years out—are still completely reliant on the vendor. It depends on how serious you are about it and how hard you work to ramp up and train your people."

Where Malonie would expect to get the benefits from the continuing association with the vendor is in ongoing maintenance.

"I would rely on them to do the changes," she says. "Because these solutions are so configurable, I can't rely on vendors to do configuration. We have to get our teams up to speed. We test the product on our ability to pick that up and make sure we are responsible to the business."

Greg Hillier, vice president, application delivery for The Dominion, believes consulting groups are leading the way initially for insurers in terms of pushing projects forward because they have expertise that most carriers don't have.

"[Insurers] have the business knowl-

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edge and a vision of where we want to go," he says. As far as installation and maintenance, Hillier feels it is necessary to rely on the people who understand the application to drive that portion of the project.

"You will always have some relationship and dependency on the vendor to selectively use their resources over time," he says. "Three or four years out, if I need that expertise, I will go back to OneShield and ask if they could supply individuals. If you are going to do a core upgrade you are going to be relying on the vendor."

PROJECT MANAGEMENT

The Project Management Office (PMO) adds a degree of safety, security, and timeliness to a project that a carrier can't accomplish if they don't have people with formal PMO training.

"Most of the highly successful implementations I've seen have come when a formal PMO already exists or is established for major projects," says Applebaum.

"Think of how disruptive this type of project is going to be," says Carney. "The establishment of a project manager or an engagement strategy means there needs to be lots of internal communication about what is happening and how it will impact people. The PMO is kind of the glue that keeps it all together. Core system replacement is not a project that gets done in a quarter and running such a project is certainly not a part-time job."

Hillier points out that in addition to The Dominion's own project manager, OneShield supplied a project manager to keep track of and actually manage the changes of the application.

"We managed the project overall and [OneShield's] project manager would be there for there specific piece, but we had overall responsibility," says Hillier. "To take on something of this nature—we had not internally done such a project of this magnitude—we had to go out into the market and hire a senior manager who could help us run a project of this size."

When you undergo a core system replacement such as what The Dominion undertook, you are not just looking at policy administration, you're looking at all the integration points as well, according to Malonie.

"Basically it was a whole program of changes," she says. "There were different applications like claims, the print solution, the reporting and billing solutions. They were all engaged in the project. The program manager kept all the different projects in line as well as a senior project manager for the policy implementation."

Grieve believes project management is a huge problem for companies to deal with when looking to replace their core systems, especially small carriers.

"The cost component for these implementations is tremendous," says Grieve.

Not only do insurers have to buy the software package, but they also have to buy the software maintenance, as well as pay the vendor for implementation.

"That's usually a number that is in excess of a small company's annual budget," he said. "It's extremely stressful financially."

With the financial burden hanging over them, some carriers try to do some of the development in house to keep the cost down, but this strategy robs the company of resources to keep the lights on within the IT department, according to Grieve.

The basic problem in core system replacement is that carriers replace core solutions once every 20 years so they don't know how to do it since few staff members—if any—were around the last time such a project was attempted.

"It's the same reasons why more companies now require consulting groups to help them find software," says Grieve. "The argument equally applies to getting that software successfully implemented. There are skill sets that companies don't have, like project management. They usually have people that have managed small maintenance projects or system upgrades rather than core system replacements, which are on a completely different magnitude and scale of complexity."

When carriers try and deal with the budget issues involved with such projects they make the mistake of trying to figure it out as they go along.

"Testing a new policy administration system is extremely complicated," he says. "[Some carriers] don't have enough people and they don't have people with the right skills. And even if they have people and people with skills, they don't have methodologies and discipline to help support this because it is so much bigger and more complex than anything they've encountered in 20 years. A larger carrier with more financial resources and possibly more infrastructure components in its IT organization deals with these issues a lot better." **TD**