Aite Novarica

[INSURANCE UPDATE]

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FEATURES

02 THE GOLDEN AGE OF INSURANCE TECHNOLOGY
BY KEN TOFFOLO

04 MODERN PAS VENDORS ATTRACTING P/C INSURERS WITH DIGITAL ENGAGEMENT
BY MARTIN HIGGINS

05 CORE REPLACEMENTS IMPACT CUSTOMER EXPERIENCE AND TALENT ACQUISITION FOR LIFE INSURERS
BY DEB ZAWISZA

06 CIO PROFILE
DEEPIKA SRIVASTAVA, CIO,CISO, THE DOCTORS COMPANY GROUP

07 NEW REPORTS
SUMMARY OF RECENTLY PUBLISHED REPORTS

NEWS & VIEWS

"The goal should be to push IT toward enabling more transformation. In order to do this, IT not only needs to know the business, it needs to be tied to it.

ROB McISAAC
HEAD OF LIFE, ANNUITIES AND BENEFITS INSURANCE PRACTICE

NOVARICA IS NOW AITE-NOVARICA GROUP

I'm proud to announce that Novarica has joined with leading financial services insights and advisory firm Aite Group to form Aite-Novarica Group.

This move will allow our team to continue to serve our insurer clients while broadening our offerings to include additional services on cybersecurity, fraud/AML, payments, and more. Aite's insurance analysts will be joining our practice, and we'll have new colleagues in banking, wealth management, institutional securities, and other financial services areas that are increasingly relevant to insurers.

Nothing will change for our current clients as a result of this merger. You will continue to enjoy the same level of access at the same pricing as before. Our clients will also gain access to reports published by Aite's insurance analysts — we'll be merging our online libraries soon at https://aite-novarica.com.

Rob, Martina, Jeff, Mitch, and I will continue to lead our insurance practice as we have for the last few years. But my role is changing. After 20 years as a practice leader and CEO, I will be stepping back from operational leadership to take a new role as Head of Research Councils for Aite-Novarica Group, focused on building and working with our executive knowledge communities like the 400+ CIO members of the Novarica Insurance Technology Research Council. I'm looking forward to focusing more on our community members and less on company operations!

The new CEO of Aite-Novarica Group is Kurt Reisenberg, an experienced executive from CEB/Gartner who started his career as an insurance analyst at the Advisory Board Company, right after graduating from Brown with me in 1994. In addition to my new role as Head of Research Councils, I'll also be serving as an advisor to Kurt as he continues to expand the business.

The entire Novarica team is excited about this opportunity to bring more insights and services to our insurance clients and to continue helping them address the challenges and opportunities of the 2020s.

Thanks again, and please don't hesitate to contact me with any questions.

THE GOLDEN AGE OF INSURANCE TECHNOLOGY

BY KEN TOFFOLO

I fashion myself as a bit of a history buff. But while others focus on the Civil War or WWII, I turn my attention to the history of life insurance technology — sounds pretty boring, but hear me out. I started in the industry over 40 years ago. At the time, I was a programmer trainee working on a project for a small insurer that was one of the original sponsor companies for a new policy admin system.

I thought I was there at the infancy of the computer era. However, after reading JoAnne Yates's Structuring the Information Age: "Life Insurance and Technology in the Twentieth Century", I came to understand that many of the early advances in computing and insurance technology could be traced to 1905. It was then that Herman Hollerith's company, the Computing-Tabulating-Recording Company (the forerunner to IBM), lost the 1910 census contract.

Hollerith pivoted to the life insurance industry to keep his company afloat, selling his keypunch-based tabulating machines to actuaries at major insurance companies. The first "admin systems" were, in essence, stacks of keypunch cards that contained individual policy information. These cards could be sorted, collated, and, in later years, printed to become the authoritative record of the business. Actuaries used these systems to perform early mortality studies.

In fact, the actuaries were the technical architects of the era. They worked closely with the hardware vendors to shape the architecture and strategy for future advances.

Insurers began to collaborate, and standards, best practices, and industry associations started to emerge. The Life Office Management Association (LOMA) was one of these associations. The LOMA Systems Forums were networking events that featured a showcase of vendor technology. Instead of software, the exhibit halls at these early events contained tabulating machines from various manufacturers.

As tabulating machines evolved to mainframe computers, the information contained on the keypunch cards migrated to magnetic tape. Systems were developed to maintain policy information and provide a means to perform business transactions. One theme underlying these advances was that the time between the announcement and delivery was measured in years, sometimes as many as five to ten. Another theme was a high cost associated with changing data formats or media due to the migration of millions of policies. As a result, many insurers were slow to adopt. Sound familiar?

Another issue that hampered adoption was the cost of acquiring and running the new mainframe computers. Many smaller regional insurers couldn't afford to acquire the hardware and develop the systems necessary for their specific products. IBM developed a life insurance policy admin system to address this issue, the 1962 Consolidated Functions Ordinary ('62 CFO), providing it to insurers that bought IBM hardware. '62 CFO was one of the first commercially available life PAS;

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With the next generation of mainframes, IBM began to focus more on hardware and unbundled its software offerings. In 1969, three companies took the IBM system, extended it to build out additional capabilities, and offered their new systems to the industry.

its success and adoption rate helped spur the adoption of mainframe computers throughout the industry.

With the next generation of mainframes, IBM began to focus more on hardware and unbundled its software offerings. In 1969, three companies took the IBM system, extended it to build out additional capabilities, and offered their new systems to the industry. One of these systems was the one that my first employer sponsored and implemented in 1981.

The 75 years it took to get from Hollerith to my entry into the industry may epitomize the slow "march of technology" the industry is known for, but I can say there was an innovative tone to the work we did in those early days. None of the tools and data access technologies existed.

If what we needed didn't exist, then we designed and built it. We built library management systems, regression test harnesses, conversion tools, reporting systems, and online transaction capabilities in a memory- and storage-constrained environment. We shared and bartered customer enhancements with other insurers while developing enhancements to support our unique products and processes.

I am reminded of my early days when I see the innovation and ingenuity prevalent in the InsureTech world today. InsureTechs are reimagining core insurance processes with an outside-in approach. Many startups are rethinking distribution, bringing products to consumers rather than simply enabling a direct online purchase. Startups previously positioned as competitors are becoming partners.

InsureTechs have focused on front-end applications in areas like customer experience and distribution. Now, they are also targeting back-end processes in underwriting and claims. Armed with Agile development methods, data analytic tools, and cloud-based architectures, startups can deliver the next level of advancement in five to ten months rather than five to ten years.

BLOG SPOTLIGHT

AT COMMERCIAL LINES INSURERS, AGENT EXPERIENCE IS KING

BY ERIC WEISBURG

CIOs are focusing on technology and efficiency improvements, including consolidation, enhancement, or replacement of core policy admin systems. Several are also aiming to grow their commercial lines business by expanding into new states and/or developing new products. Many of those new products will require better data.

WHAT WILL DIGITAL TRANSFORMATION MEAN AS COMPANIES "RTO"?

BY NANCY CASBARRO

Companies may be feeling that "could doesn't mean should" when it comes to work travel, conferences, and other external meetings. But, for some folks who have not been to branch offices or their company's space in months, restrictions have loosened up enough to allow workers to spend time back in their desks.

COMMERCIAL LINES: A HARDENING MARKET, BUT OTHERWISE MORE OF THE SAME

BY MARTINA CONLON

Almost all commercial lines have seen rate increases, but closed facilities and operations reduce business interruption and property values. Policyholder bankruptcies also lead to reduced premium income. Policyholders are pressuring insurers to offer some degree of premium returns. Insurers are restricting coverage, including the pursuit of communicable disease and related exclusions.

To read more, visit aite-novarica.com/insights/blog

MODERN PAS VENDORS ATTRACTING P/C INSURERS WITH DIGITAL ENGAGEMENT

BY MARTIN HIGGINS

Property/casualty (P/C) insurers have always led the industry in adopting emerging technology to sell products in new and easier ways, provide better customer experiences, and improve operating efficiencies. From Aite-Novarica's studies of P/C insurer CIOs as well as conversations with insurers and vendors, it's apparent that the P/C policy administration market continues to flourish for vendors with systems meeting modern demands.

One factor that often leads to system replacements is digital engagement. This can be driven by a desire to attract and retain top producers, as well as to provide policyholders and claimants with a satisfying digital experience. Newer generations of producers and policyholders have higher expectations for technology and usability and won't tolerate the inefficiencies and poor user experience that legacy solutions offer.

The Evolution of Digital

The delivery of digital capabilities related to PAS is evolving. Historically, the primary mechanisms that insurers used to engage with external stakeholders were the agent and policyholder portals. Early portals were often homegrown and integrated with policy systems using database extracts or rudimentary APIs.

Recognizing a market need, vendors began to offer portal capabilities as a part of their core suites. Solutions either involved exposing the PAS interface directly to agents and using security to limit the experience or the creation of out-of-the-box portals dedicated to agents and/or policyholders. While the latter solution offers a viable option, especially for smaller insurers, insurers often still chose to continue on the custom portal path.

Usually, this was because they believed that a custom portal was a competitive differentiator or because they had multiple PAS solutions in play and wanted to offer a unified portal experience, something that was often not easily achieved with a vended portal, which was limited to interacting with the vendors' back-end system only.

Digital Platforms: Customized and Unified

A recent development is the emergence of the "digital platform" as a replacement or alternative to the canned portal. Digital platforms are low-code solutions that aim to address the shortcomings of both canned and custom portals. The use of low-code technology allows insurers to fully customize the user experience for competitive advantage, as well as to integrate with alternate back-end systems to provide a unified experience regardless of which back-end system houses the policy.

While not as flexible as fully custom portals, digital platforms allow for more rapid delivery of capabilities because of the low-code tooling, pre-built content, content management, social media integration, chat, and chatbots. Pre-built integrations with commonly used services for underwriting, claims, and payment processing also act as an accelerator to value.

The use of these digital platforms is not limited to delivery of portal capabilities. Vendors are increasingly positioning these as stand-alone platforms for more general digital needs. Similarly, the horizontal low-code vendors are increasingly competing in this space by offering insurance-specific content and accelerators to insert themselves into

CORE REPLACEMENTS IMPACT CUSTOMER EXPERIENCE AND TALENT ACQUISITION FOR LIFE INSURERS

BY DEB ZAWISZA

Interest in policy administration system replacement remains strong at life and annuity insurers. Policy admin replacement was high priority in Novarica's Insurer IT Budgets and Projects 2021 report: 31% of large and 42% of midsize life/annuity/benefits (L/A/B) insurers reported plans to start or continue replacement projects in 2021 or make major enhancements to their policy capabilities.

Insurers are increasingly looking to stand up new environments for new product or market opportunities, allowing solutions to complement legacy environments and enable phased evolutions toward modernized core ecosystems. Insurers see core replacement as important to customer experience and product innovation.

Preparing for a Future... That May Already Be Here

Customer experience and understanding the complete customer journey have become increasingly important drivers as insurers consider new systems, including core policy administration. Better customer and agent experiences with system usability, 24/7 access to data, and system flexibility for new communication channels require modern architectures and capabilities.

Banks, investment companies, and, increasingly, property/casualty insurers have implemented systems to meet customer requirements for information access. L/A/B insurers have lagged, though many now recognize that aging legacy systems challenge their ability to meet rapidly evolving customer expectations. Legacy environments can create resource and cost issues for insurers, but the conversion models frequently deployed in short-liability businesses need modification to avoid increasing costs and risk in the L/A/B ecosystems.

Keeping Up With the Times

Insurers face an aging workforce among top producers in their distribution network. As baby boomers retire, insurers will need to prepare for a world with far fewer agents, using significantly better technology to manage much bigger books of business.

Legacy system constraints and processes with incomplete digital support are among the issues insurers have grappled with during the past year of working from home.

Recruiting a new generation of talent and allowing them the flexibility to work in the office or at home is a challenge with legacy systems. Usability and information accessibility issues of legacy systems will continue to hinder the ability of insurers to attract captive agents and employees and expand business with independent agents.

New generations of business and IT associates will not be willing to live with aging systems like their older counterparts. These issues are becoming more urgent for insurers today as Millennials remain on track to represent 75% of the US labor force by 2025. For both operations and IT organizations, an acceleration in early retirements by Baby Boomers may be forcing a reckoning with lost skills and the preservation of institutional knowledge much sooner than many carriers had been planning for, perhaps another consequence of the COVID-19 pandemic.

CIO PROFILE: DEEPIKA SRIVASTAVA, CIO AND CISO AT THE DOCTORS COMPANY GROUP

Deepika Srivastava is SVP, chief information officer, and chief information security officer at The Doctors Company Group. She is responsible for TDC's enterprise-wide information technology and leads the company's digital strategy and execution. Prior to her TDC Group CIO role, Deepika held several senior strategic and operational leadership positions at TDC.

Aite-Novarica Update: What are your top priorities for the next 6-12 months?

Deepika Srivastava: We have three major goals. First, core modernization — continuing to build and modernize our IT state and invest in cultural and technological innovations. We have completed several major projects in 2021, including migrating policy, claims, and billing systems, and we're focused on enhancing digital experiences for all our stakeholders, both internal and external.

Innovation is another goal, continuing our adoption of an innovation-led mindset. We have a unique combination of talent, assets, and culture, which give us the ability to focus on innovative outcomes beyond classical economic impacts. We truly believe that the insurance industry will operate differently ten years from now. It's not the first time the industry has seen major change, but the current conditions — the scale of data volume and processing, for example — mean that a lot is changing very rapidly.

Finally, talent is a top priority. None of the work that we want to do can happen without solid talent, so it's a priority to attract and maintain good people.

ANU: What has been the biggest impact of the pandemic environment on your way of working?

DS: Our employees have demonstrated tremendous resilience and adaptiveness to changing conditions. Another piece of it is that we have access to technology solutions that are flexible, secure, and reliable. We've been able to expand access to tech across functions, implement value changes, and do some employee reskilling. We're committed to making healt hcare simpler and easier; it's the core of who we are, and we serve the entire spectrum of the health-care industry from small clinics to large hospitals to vaccine researchers and medical research companies, and more.

ANU: How has the relationship between IT and other business units evolved over the past year as you've made your Agile investments and people are working primarily remotely?

DS: We already had a virtual work culture due to our national footprint, so we historically have had a high degree of collaboration. We have transitioned to an Agile model, which is focused on delivering technology capabilities early and often. The pandemic made us stronger, in that sense. The Agile model was very important for organizational resilience. It helped us to be nimble, communicate, and address changes. Future challenges like the delta variant will be driven by uncertainty, so that organizational resilience will be critical.

ANU: What do you see as some of the biggest challenges ahead when you think about the role of technology and some of the opportunities to use technology to improve the business?

DS: Cybersecurity is the biggest challenge. When working from home accelerated in response to the pandemic, it opened up new attack vectors for many companies. We're seeing very sophisticated attacks at increased volume, which are especially targeting insurance and financial services companies. As an industry, we will need to continue to address these attacks effectively and adapt as new threats emerge.

Time to market is another challenge. We're kind of in "Amazon Delivery Mode" — people's expectations have been shaped by getting products immediately. Setting expectations and taking on the right technology projects has been a major factor for us in maintaining delivery cadence.

Finally, partnerships with solution providers, vendors, and think tanks — if you have the right relationships, you can take on any challenge.

It's also important to concentrate not just on implementing technology but on strategic next steps like scaling, cultural challenges, reskilling, and upskilling. People, processes, and tech form a trifecta that makes it work.

ANU: Which emerging technologies are you most interested in and thinking about?

DS: First and foremost is cloud and continuing to scale our investments there. Maturing our RPA practice, artificial intelligence as well, and extended reality.

There are also infrastructure technologies, which, while they're not truly "new," are areas we're continuing to explore: serverless computing, microservices architectures. I'm especially interested in event-driven architectures for us.

Finally, data — everything is data, data, data. We're looking at data lakes and repositories, as well as technologies for streaming and real-time data.

ANU: How have you and your team leveraged the Aite-Novarica relationship?

DS: We think of Novarica as an insurance think tank. It's a relationship we value. We use Novarica to validate our assumptions, and we have involved them as advisors when shaping our technology strategy. It's a relationship that has continued to evolve and deepen.

NEW REPORTS

Here's a summary of recently published reports, including studies of insurers' technology experiences, capabilities, and plans from our Research Council; business and technology trends; CIO best practices; vendor information in our Novarica Market Navigators; and recent webinars and presentations. All of the research summarized here is available for download by our advisory clients at aite-novarica.com. Research reports can also be purchased individually.

EXECUTIVE BRIEFS & REPORTS

SIX QUESTIONS FOR A BETTER IT STRATEGY

GENERAL LEDGER AND FINANCIAL SYSTEMS FOR INSURERS

QUANTUM TECHNOLOGY AND INSURANCE

INSURANCE TECHNOLOGY STRATEGY AND REGULATORY COMPLIANCE, VOL. 7

MODERNIZING CUSTOMER COMMUNICATIONS: CUSTOMER EXPECTATIONS IN A DIGITAL WORLD

BUSINESS TECHNOLOGY TRENDS

COMMERCIAL LINES

DEFINED CONTRIBUTION RETIREMENT PLANS

RESEARCH COUNCIL STUDIES

INSURANCE TECHNOLOGY CASE STUDY COMPENDIUM 2021: IT PRACTICE

INSURANCE TECHNOLOGY CASE STUDY COMPENDIUM 2021: DIGITAL INITIATIVES

INSURANCE TECHNOLOGY CASE STUDY COMPENDIUM 2021: DATA INITIATIVES

INSURANCE TECHNOLOGY CASE STUDY COMPENDIUM 2021: CORE INITIATIVES

AITE-NOVARICA 100 DIGITAL, DATA, AND CORE CAPABILITIES FOR PROPERTY/CASUALTY INSURERS

NOVARICA MARKET NAVIGATORS

LIFE/HEALTH/ANNUITIES CLAIMS SYSTEMS

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Aite Novarica

Aite-Novarica Group is an advisory firm providing mission-critical insights and advice on technology, regulations, strategy, and operations to hundreds of banks, insurers, payments providers, and investment firms — as well as the technology and service providers that support them. It was created through the merger of Aite Group LLC and Novarica Inc., two market-leading financial-services-focused advisory firms.

Our goal is to be a trusted advisor to our clients by using our data, experience, and proven best practices to help them make better, faster, and more lasting decisions. Comprising former senior technology, strategy, and operations executives as well as experienced researchers and consultants, our experts provide actionable advice to our client base, leveraging deep insights developed via our extensive network of clients and other industry contacts.

Aite-Novarica Group offers services such as our Insights and Advisory Service, covering Banking & Payments, Insurance, Securities & Investments, as well as cross-industry Risk domains such as Cybersecurity and Fraud & AML; our Executive Partner Service, served by our team of former CIOs and CTOs to help executives and their teams tackle their most pressing challenges; Strategy Consulting, which provides comprehensive strategy, operational, and technology consulting engagements; Custom Insights to develop long-term growth plans; and Events, including in-person and virtual conferences.

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