

Business Transformation Framework

Applied to Policy Administration

October 2010

State Auto Insurance Company Overview

- Founded in 1921
- Headquartered in Columbus, Ohio
- \$1.6 billion written premium
- Personal Insurance 66%
- Business Insurance 34%
- 1.1 million policies in force
- 34 states of operation
- 2,200 associates
- Independent agents exclusively
- 6,018 agency locations – 28,500 agents
- Rated A+ (Superior) by A.M. Best

Common Rip & Replace Hurdles

Policy Administration is a core insurance process that touches all areas of the business. Anything that impacts how policy transactions are managed is high risk. Therefore Policy Administration replacement projects generally encounter the following hurdles:

Hurdles...	Our Experience...
Companies' generally invest in smaller, workaround solutions because they meet an immediate need. This propagates more complexity.	We have invested in wrappers like netX, BizX, MySA. The result is Multiple UIs, partial solutions, multiple rating engines, disconnected process, slow to market, incompatible data models
Companies' generally have great difficulty clearly defining process boundaries around Policy Administration. Where does Policy Administration start and stop?	When we address only one part, instead of a holistic (Mega process) approach, we continue to propagate a disjointed customer experience.
Companies' risk appetite does not allow for large rip & replace initiatives	We have been stalling for 10 years...finally digested that we operate in a data driven business. We can now use a framework to rebuild brick by brick with future state defined.
Companies' financial appetite does not easily accommodate the funding needed for larger rip & replace initiatives	We know its big and previously we had no way to accurately estimate how big, so we just do little things.

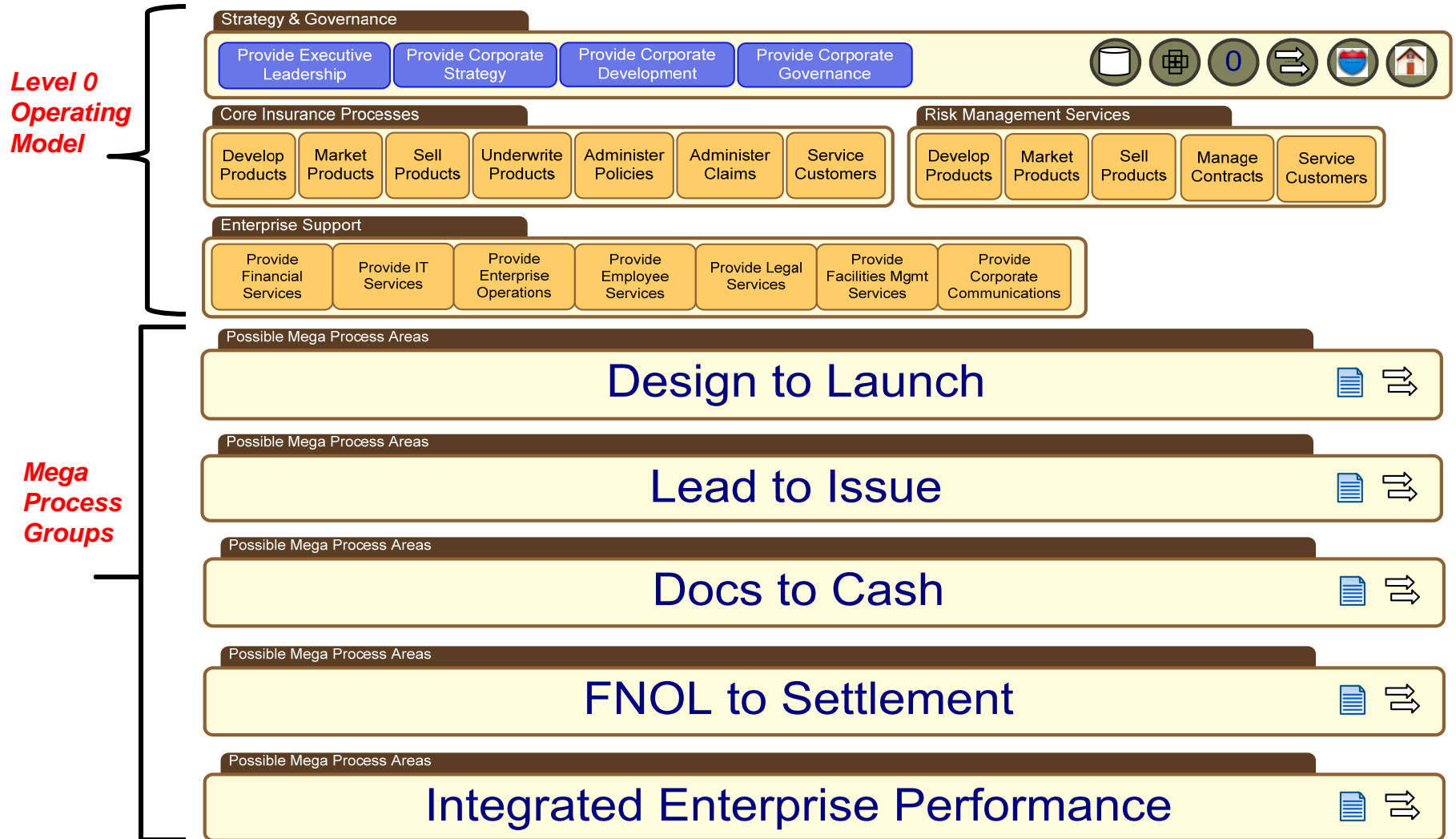
How do we break this cycle and overcome these hurdles?

Breaking the Cycle

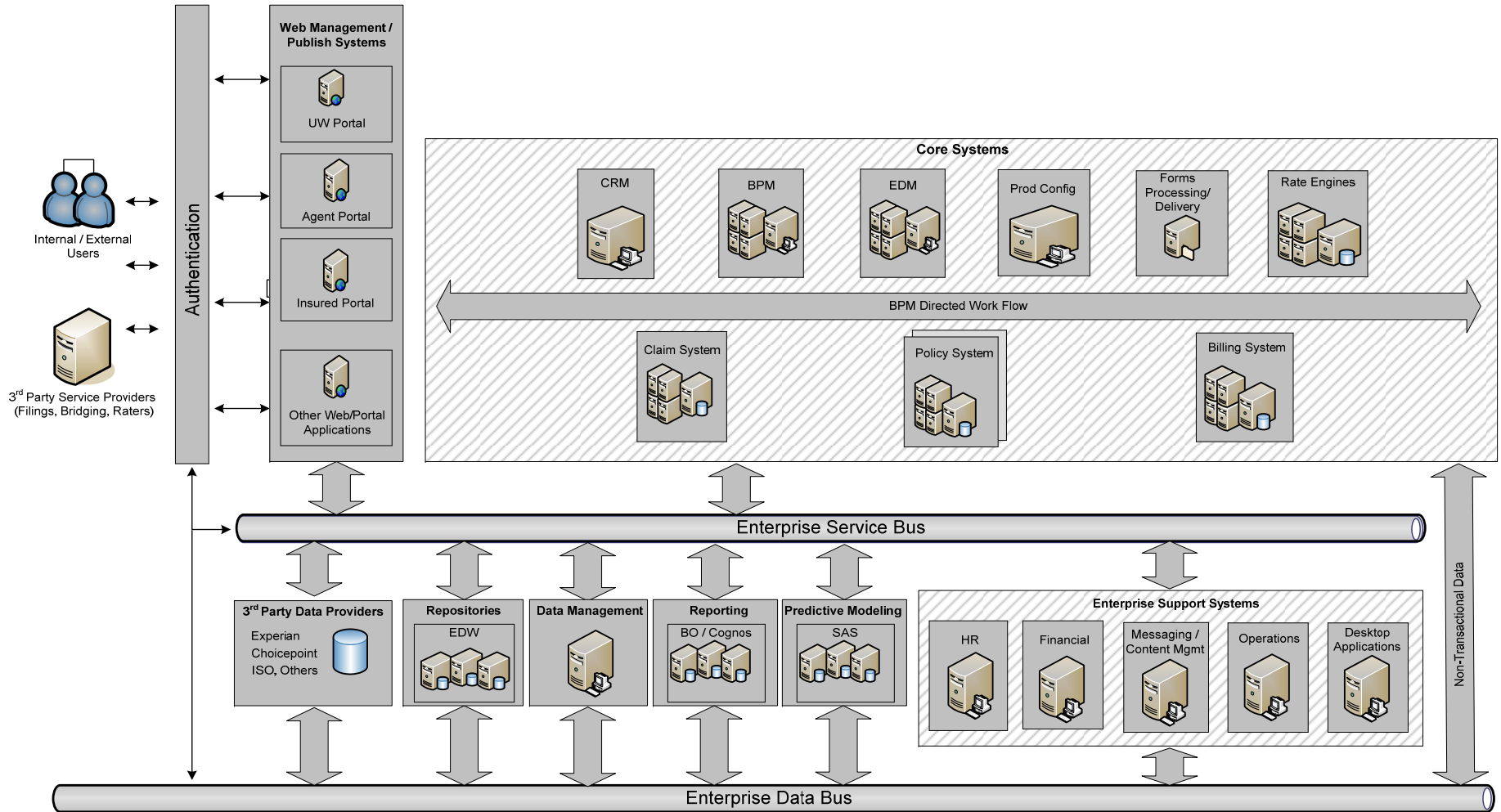
- **Use Enterprise Architecture techniques**
 - Define your Operating Model
 - Define your future state application architecture
 - Grade your applications
- **Use a business transformation framework**
 - Rapid process definition
 - Business Capability Development
 - Conceptual Architecture/Solution Planning
 - Focused Implementation

The result of using EA techniques and framework is we can now break down large transformational initiatives and rebuild brick-by-brick with certainty

State Auto Operating Model

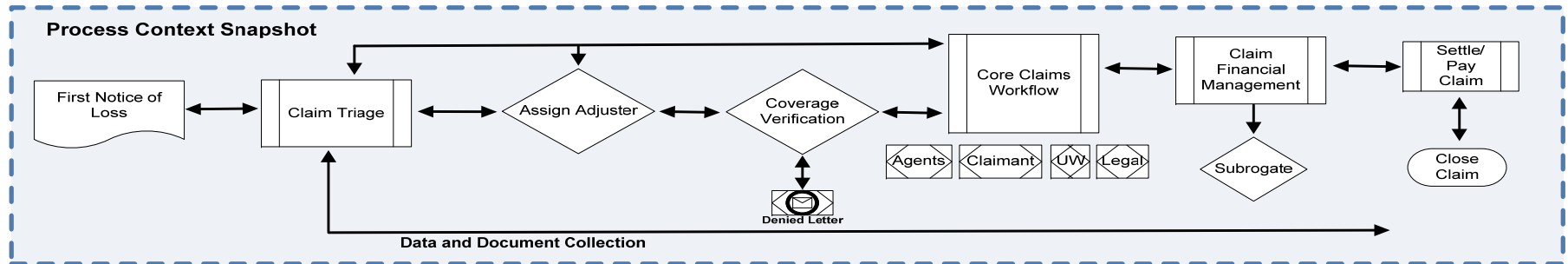
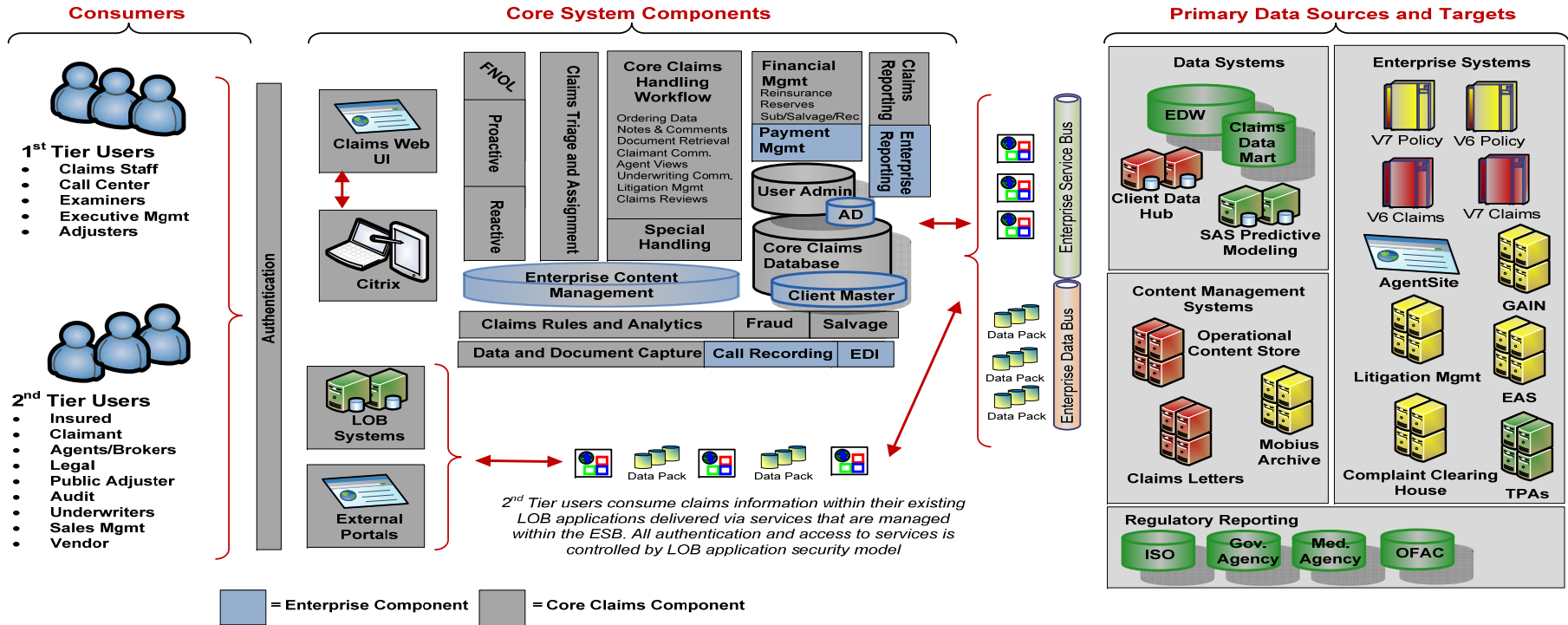


Future State Application Architecture



State Auto Enterprise Application Architecture

Conceptual Architecture



Application Grading Criteria

Each software application in use at State Auto is evaluated and graded using four (4) criteria – Functional Needs, Technical Needs, Personnel Fit, Vendor Fit. Each application's grade is based on the answer to these key questions per criteria:

1. **Functional Needs:** Does the application support the delivery of both enterprise and business capabilities?
2. **Technical Needs:** Does the component architecture of the application meet IT standards and support the future state direction?
3. **Personnel Fit:** Are the technical resources required to enhance and support the application available or hard to find?
4. **Vendor Fit:** Is the Vendor that provides the application a good fit with State Auto? Is the Vendor financially stable?

Green = Invest **Yellow = Tolerate** **Red = Retire**

Our Approach in Summary

- **Understand upfront that replacing any core insurance processing system can be a multi-year effort. Invest accordingly!**
- **It is important to have future state process and business capabilities defined before you start thinking about solutions. Avoid the tendency to jump right to solutioning**
- **Plan your implementation around the phased delivery of capabilities. This allows for an iterative delivery and provides flexibility with prioritizing the order in which capabilities go live**
- **Clearly distinguish in your program budget the spending on Enterprise Components vs. Core System components. A good ratio is 90/10. This helps justify the large investment**