



Western Computer Services, Inc.



# **Administration System(s) Your Competitive Advantage: Case Study**



## Agenda

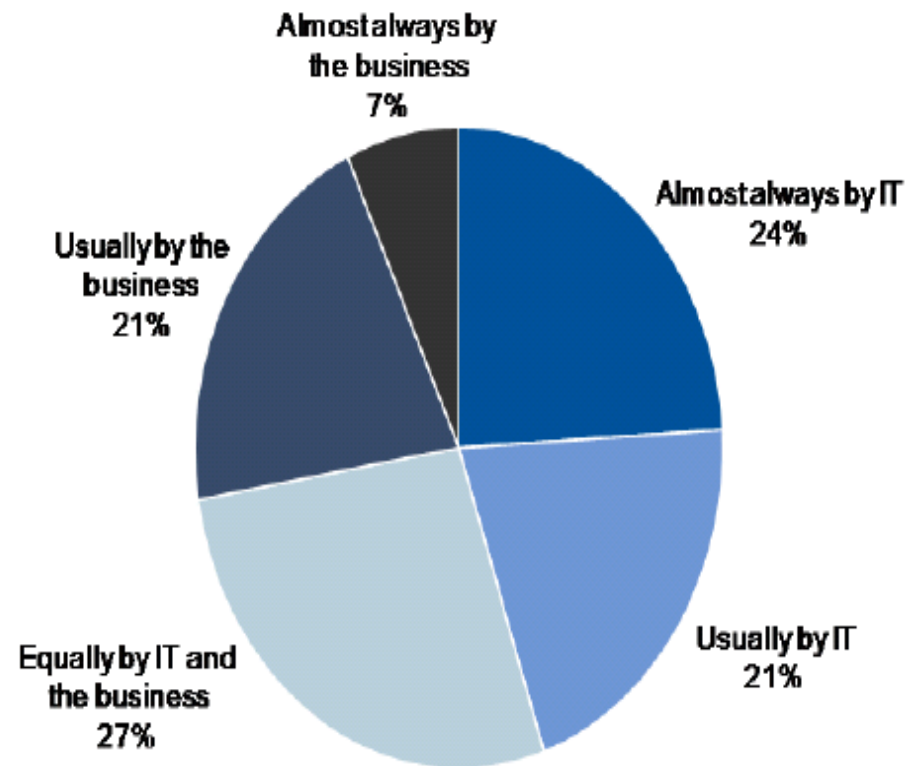
- Welcome and Introductions
- Extension or Replacement?
- Real World Example
- A Legacy Extension Approach
- A Replacement Approach
- Lessons Learned
- Questions and Answers



## Extension or Replacement: Who is the driving the decision?

Figure 8. The Driver for New Technology Initiatives in P&C Insurance

How is the need for new technology, such as Web 2.0, mobile devices, business intelligence or new software, initiated within your organization?



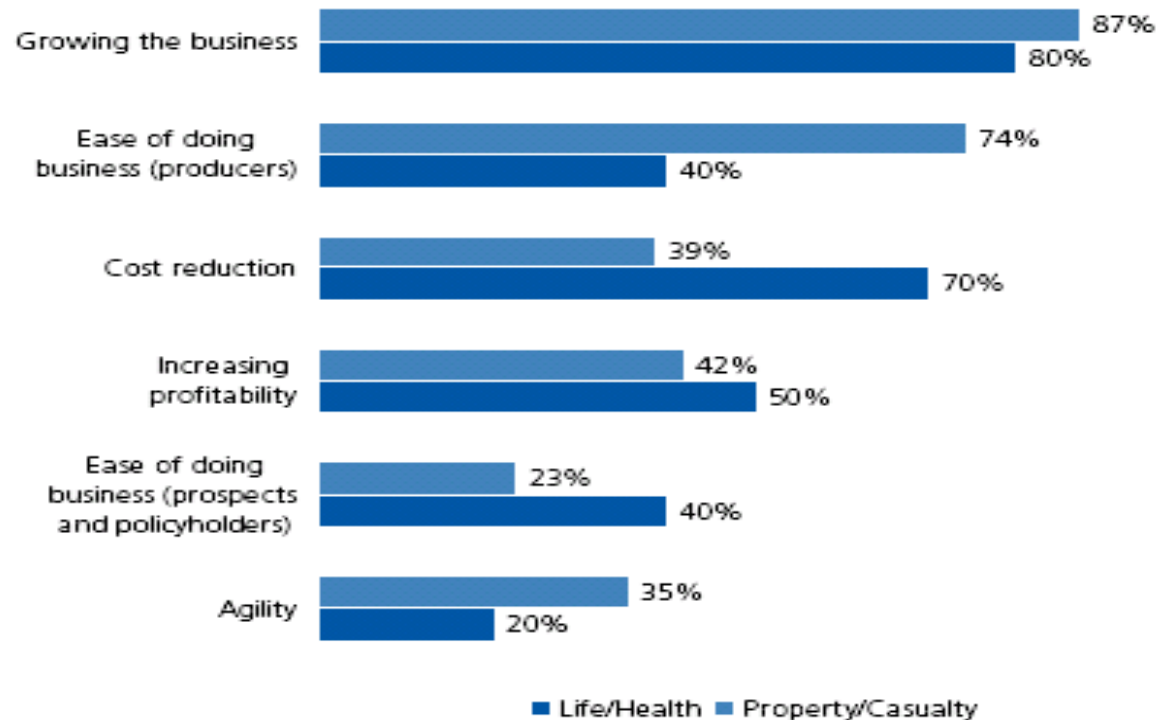
Source: Gartner (March 2010)



# Extension or Replacement: What is driving the decision?

**Figure 3: The Most Important Business Issues IT Will Address in 2010**

Question: What are the three most important business issues IT will help to address in 2010?



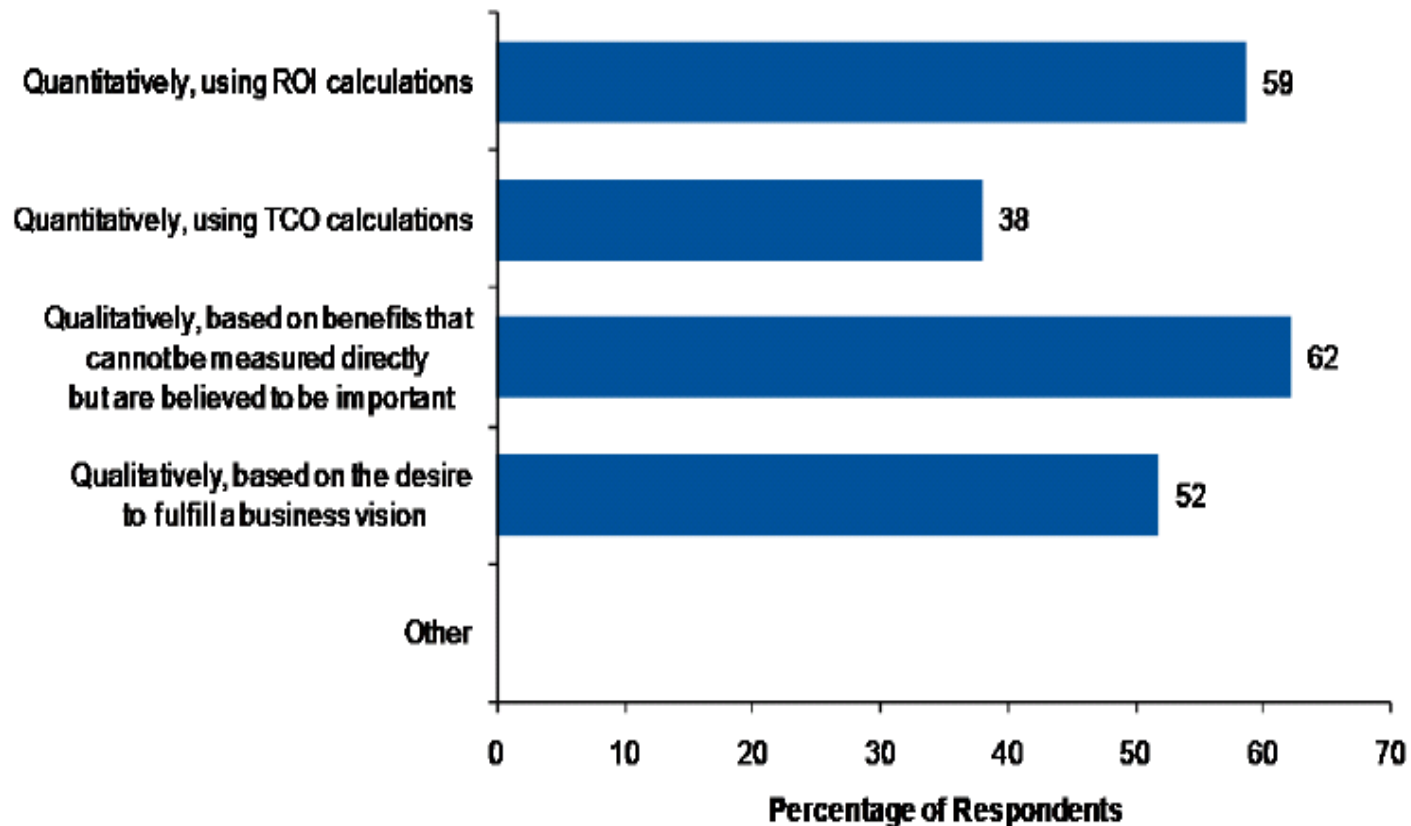
Source: Celent



## Extension or Replacement: How is it justified?

Figure 9. Measuring ROI for IT Projects

How is IT spending justified in your company?



Source: Gartner (March 2010)



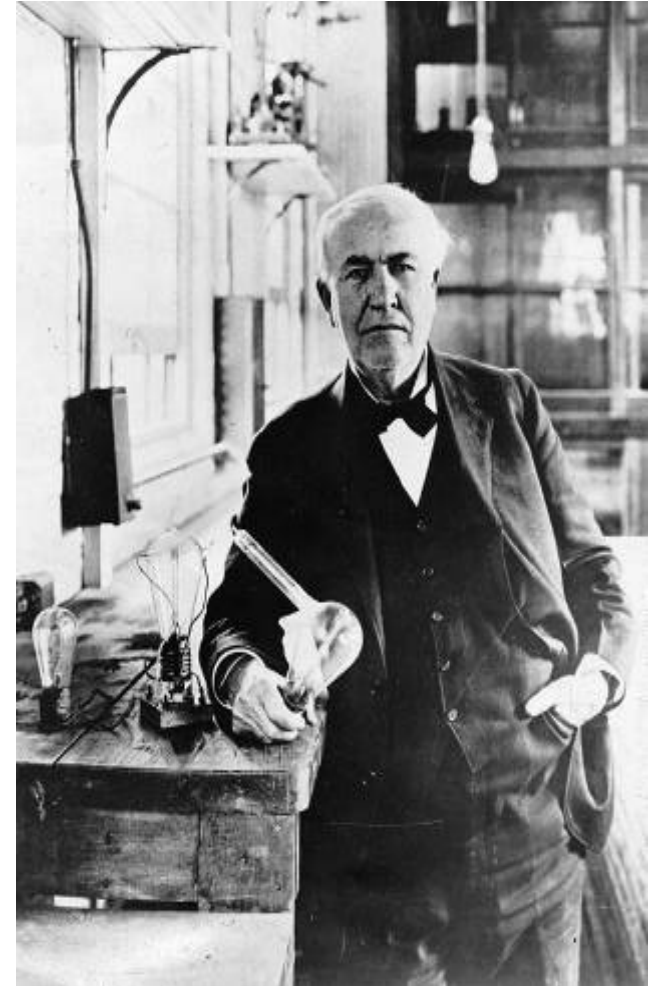
## **Extension or Replacement: Some Facts**

- **Administrations Systems are the core IT systems for P&C Insurers.**
- **They generally have complex and extensive interfaces in the enterprise.**
- **Replacement is costly, risky.**
- **Ripping an application that is written in legacy languages increase future risk, and can unearth flaws that add unanticipated redevelopment costs.**
- **Extension or Wrapping is usually a temporary compromise that may not achieve long term business benefit.**
- **Much of the cost of replacement is due to the perceived need to adapt the product to current processes, instead of adapting business processes to exploit efficiencies provided by the product.**



- “Opportunity is missed by most people because it is dressed in overalls and looks like work.”

- -- *Thomas A. Edison*





## Decision Criteria and Considerations



- **Life Sustaining Treatment**  
When making decisions about life support, it is important to consider the following questions:
  - Will the treatment make a difference?
  - Do the burdens of treatment outweigh the benefits?
  - Is there hope for recovery? If so, what will life be like afterward?
  - What do I value?



## Decision Criteria and Considerations



- **Legacy Lifetime Extension**  
When making decisions about legacy extension, it is also important to consider the following questions:
  - Will the extension make a real difference in the business?
  - Do the burdens of extension and legacy maintenance outweigh the benefits?
  - Is there hope for extension? If so, what will the maintenance effort be like afterward?
  - What does the business value in the systems with respect to near term business plan?  
Support for growth, efficiency, agility?



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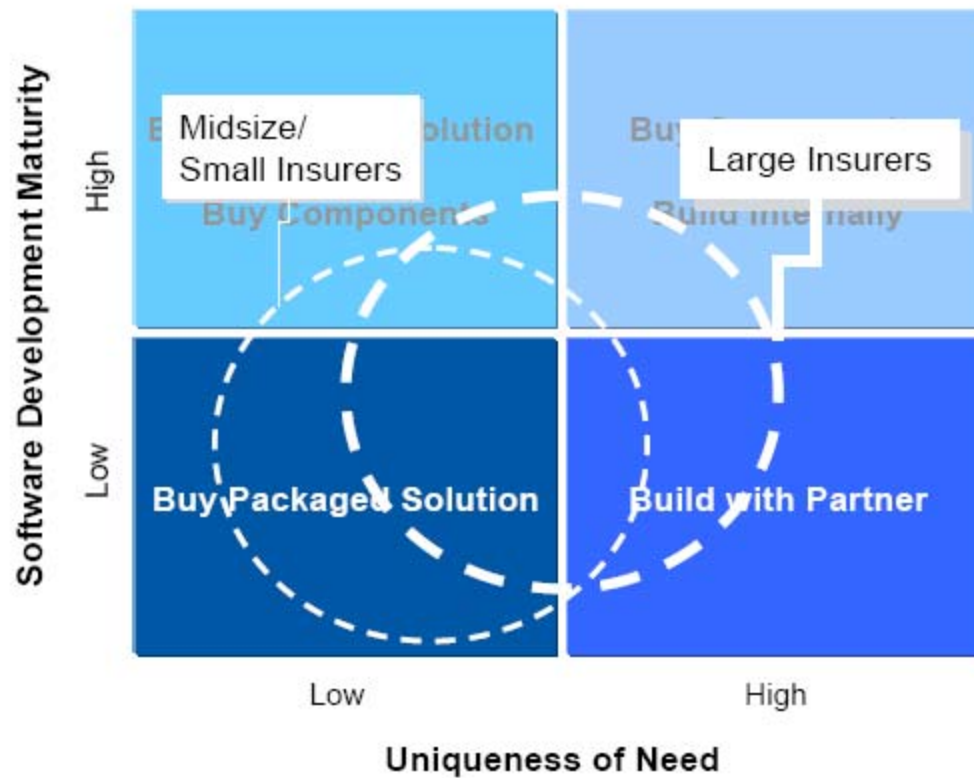
## Decision Criteria and Considerations



- **Legacy Lifetime Extension**
- Or Is the extension or wrap really just that?  
Lipstick.



# Decision Criteria and Considerations



Source: Celent



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## Real World Example - WCSI

- History
  - Incorporated in 1972 to serve three client/owners
- Ownership
  - Western Agricultural Insurance Company, FBL Financial Group
  - Mountain West Farm Bureau Mutual Insurance Company
  - Farm Bureau Mutual Insurance Company of Idaho
- Management
  - FBL Financial Group – Past
  - Mountain West Farm Bureau – since 2010



## Real World Example - WCSI

- ITO provider for Farm Bureau family companies.
- Serve as integrator, aggregator, and distributor of best of breed insurance technology for our customers.
- Provide high quality, low cost services.
- Provide customized, customer centric services and content.
- Host services in a highly reliable, efficient data center.
- Rapid delivery and Service Excellence.
  
- Historically, developed and hosted legacy administration systems developed in Cobol and RPG.
- Since 2005, have worked with individual customers to define roadmap for transformation based on:
  - Business need
  - ROI based on the Line of Business
  - Complexity / Risk of Replacement



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## Legacy Extension Approach

Real World Example : Specialty Auto Policy Admin System

### Players: WCSI & Western Ag Insurance

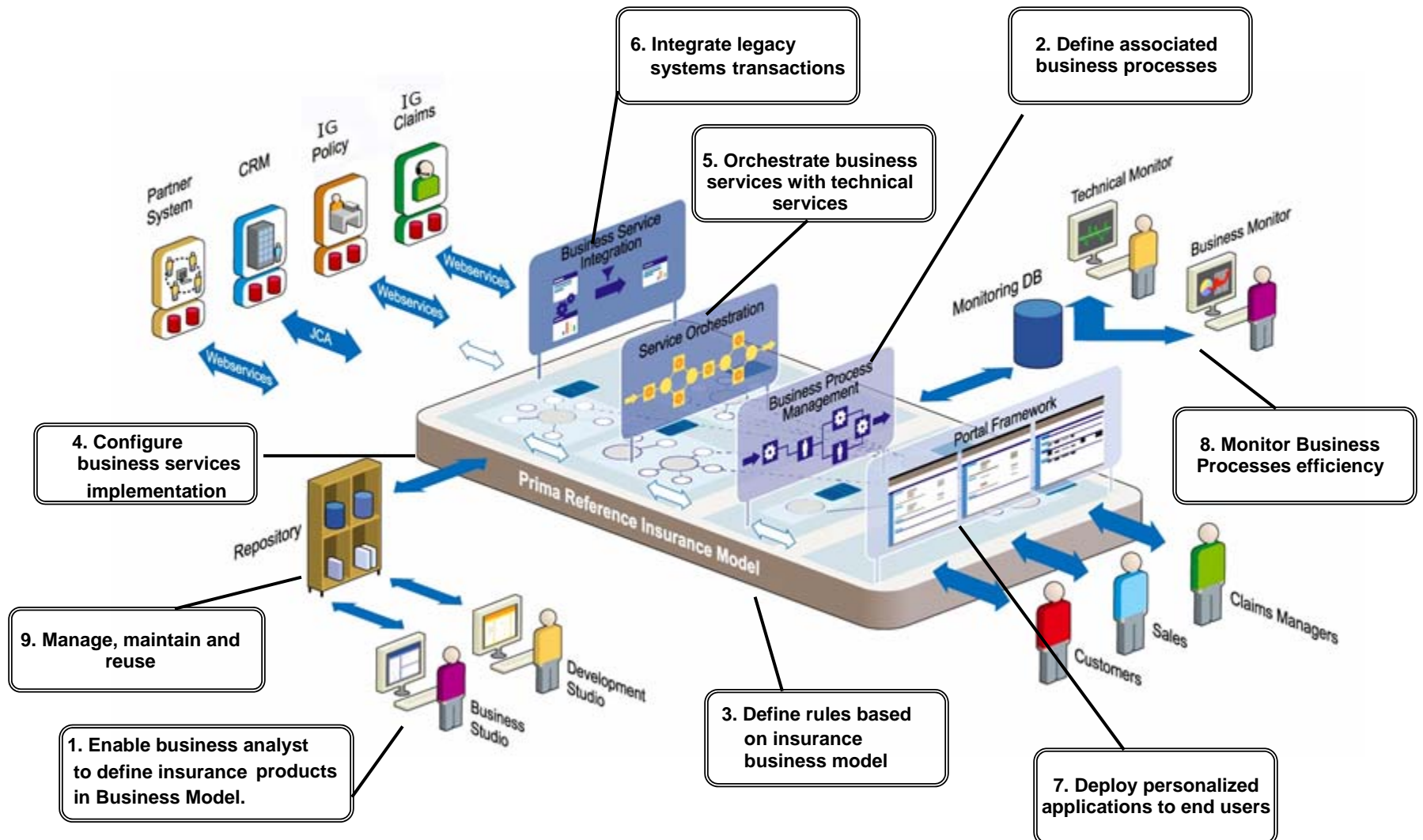
- SaaS Provider for Farm Bureau Companies
- Western Ag Insurance Specialty Lines Product

### Core Capabilities:

- Farm Bureau centric market differentiating insurance processing developed over 3 decades.
- Deep understanding of Farm Bureau business and culture.
- Western Ag Specialty Lines – Non Standard Auto



# Legacy Extension Framework





## Legacy Extension Approach Results

- Benefit obtainment was initially short of goals due to compromises in business rules.
- Post deployment monitoring of business processes led to adjustment of business rules to increase automated underwriting.
- Some resistance and hesitation among underwriters to automate.
- Final business process and business rule adjustments led to 50% reduction/reassignment in staff and \$750K/year in hard benefits.
- Unseated underwriters joined business analyst and Quality Assurance staff.



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## Replacement Approach

Real World Example : Personal Lines Policy Admin System

Players: WCSI & Mountain West Farm Bureau Insurance

- WCSI - SaaS Provider for Farm Bureau Companies
- Mountain West Farm Bureau Insurance focuses on Montana and Wyoming

Core Capabilities:

- Farm Bureau centric market differentiating insurance processing developed over 3 decades.
- Deep understanding of Farm Bureau business and culture.
- Agent driven, relationship focused, with farm and ranch product packaging



## Implementation of Innovation Insurer

- A seamless, 100% browser-based application which contains the existing products:
  - Innovation Policy
  - Innovation Claims
  - Innovation Analytics
- Contains all of the functionality to enable an Insurance Company to run its operational and informational requirements from a common browser based application.
- Targeting both primary audiences:
  - Internal Users
  - External Users
- Each has its own look and feel which can be amended to suit the specific needs of each customer using industry standard style sheets.

### Innovation Insurer

**Analytics**

**Claims**

**Policy**

**Billing**

**Client**

**Common**



## Replacement Decision Drivers

- Line of Business Complexity
  - Personal Lines for Farm Bureau Insurance Companies is more standard, as opposed to Commercial Lines, and Non Standard auto and is less likely to be subject to unique requirements.
  - While no off the shelf product supported the unique farm and ranch packaging requirements out of the box, the core Personal Lines coverages and ability to configure instead of program was a big driver for reducing risk associated with legacy staff approaching retirement.
- Long Term Partnership Benefit
  - WCSI partnered with Innovation Group for providing off the shelf administration suite.
  - Established long term relationship for providing packaged Farm Bureau centric solutions.
- Foundation for future replacements
  - Extension may be an appropriate decision to allow an organization to buy some time to establish an architecture foundation with a single line of business, that will enable future migrations of additional lines to that architecture.



## Replacement Approach

High level implementation approaches should consider the strengths and weaknesses of the implementation team.



Good Legacy System Knowledge	Deep Insurer Product Knowledge	PL Subject Matter Expertise
Good Web Development Skills	Agile Implementation Expertise	FB Perspective
Weak at Bottom Up Requirements Development	Exposure to many Personal Lines implementations	Subjective Preferences Tend to Prefer what is familiar
Tend to implement to our Legacy understanding	No Farm Bureau perspective	



# Implementation Options

- Bottom Up / Clean Slate Development
  - Define product needs without constraints
  - Requirements driven from as-is business and operational knowledge.
  - WCSI will extend Insurer product and customize to meet requirements with little deviation.
- Pros:
  - Allows MWFB to create product specific to their requirements, preferences, and consistent with current business practice.
- Cons:
  - Implicitly more expensive, lower speed to market, and subject to biases of veteran staff.



## Implementation Options (continued)

- Top Down / Prefab Configuration
  - WCSI / MWFB / IG team together to consider current state product and capability gaps to meet business need in a “Conference Room Pilot”.
  - Gaps are defined and implementation estimates are made for required features.
  - Required features are analyzed for ROI against business benefit and approved by Project Governance Committee.
- Pros:
  - Implicit faster speed to market, lower cost.
  - Objective approach to product features.
- Cons:
  - Some sacrifice of non-business critical preferences in return for cost reduction and speed to market.



## Recommended Approach

- Top Down / Prefab Configuration
  - WCSI / MWFB / IG team together to consider current state product and capability gaps to meet business need in a “Conference Room Pilot”.
  - Gaps are defined and implementation estimates are made for required features.
  - Required features are analyzed for ROI and business benefit and approved by Project Governance Committee.
- Approach Techniques
  - Future State Business Process Definition with Product features in mind.
  - Gaps are to be defined and measured based on future state.
  - Prototype effort to provide some knowledge and benchmarks for implementation estimates.
  - Business benefit ROI calculation



# Project Governance

- Project Governance Committee
  - Responsible for reviewing and approving or denying all product feature requirements that require extension or customization of the current product base that would incur additional development costs outside normal product configuration activities.
  - Project Management brought relevant ROI and TCO projections for proposed gap developments based on efficiency gains and subsequent expense reductions.
  - Compliance gap justifications not considered by Project Governance.



## Replacement Approach Results

- Benefit obtainment is projected based upon business process improvements, efficiency gains, and staff reductions from the replacement.
- The following current state issues are addressed in the replacement :
  - Manual underwriting reviews
  - Manual audit (policy renewal) intervention
  - Reliance on paper docs
  - Inconsistent business rules
  - Complex and redundant business processes
  - Complex and manual financial processes
- Expected policy issuance time decrease from 28 days to 2 days.
- Assuming expense ratio factors are kept constant, project costs are expected to be recouped in 120 months.
- Increased competitiveness gained through expense reductions and subsequent rate reductions.
- Increased customer satisfaction, thus increased retention ratio.



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## Lessons Learned

- Legacy Extension
  - Worked well for web enabling a specialized, multi-state, mono-line policy administration system with relatively small book of business and total DWP.
  - ROI and TCO for more complex commercial policy management system extension was less compelling due to :
    - Bottom up requirements driven by underwriting led to drift from original project objectives of point of sale automation.
    - Process transformation less likely due to re-engineering the existing inhouse processes.
- Replacement
  - Much higher projected benefit obtainment due to forced process changes based on top down implementation in which out of the box product efficiency enablers drives business process changes.
  - Some replacement experience nuggets:
    - Ensure project governance to properly control and cost justify gap development.
    - Know how your customer, what they care about, how they measure success, and what motivates them.
    - Give the business the confidence you can build what they have, but reasons for why they might consider otherwise.
    - Consider an extended replacement deployment by implementing conversion at renewal.
      - Enables reduced risk to a smaller book of business
      - Multiple test cycles
      - More customer control.