SE2

PurposeBuilt to FutureProof

Business First Approach Reduces Data Conversion Risks

Unique Transition Approach Facilitates Life Insurance Conversions

Today, it's not easy for life insurers to achieve their most pressing business goals. Priorities compete for precious time and resources, but organizations cannot pick and choose from among equally essential initiatives. They're all critical, and they're all urgent.

Insurers have to do more with fewer resources and tight budgets and they must find efficiencies across their organizations. Life insurers must meet increasingly tough regulations. They must deliver great experiences for customers across channels and meet consumers' changing expectations for personalized services across channels and for targeted products that meet their specific needs. And life insurers must deal with the burgeoning amount of rich data coursing into their organizations that can either overwhelm them or provide competitive advantage if they can harness it for actionable insight and better decisions. Life insurers must address these issues simultaneously, and they must tackle them all now.

An optimized, agile life insurance operating platform can cut technology and operating costs while reducing complexity, and can give them more control over their data. Unfortunately, many life insurers still run their businesses on old legacy technologies that hold them back from becoming truly competitive. After years of adding dozens of disparate systems on top of existing applications to deal with legacy limitations, insurers have siloed systems that hamper agility and render them unable to respond to changing business conditions and market requirements. What's more, the aging workforce will no longer be able to support the aging systems.

Although they know their systems hold them back, many life insurers are hesitant to begin the inherently-risky conversion process. Insurers are generally risk-averse and projects impact employees, customers, and distributors. In some cases, insurers have very old products so they may not know what information is actually on their current system. Insurers must take the first step – which is easier if they have some help.

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Legacy conversion alternatives

Migrations and conversions of policy data are among the greatest challenges of any legacy modernization project, according to a report from Gartner that looks at minimizing risks associated with policy data migrations and conversions. "The data stored, processed and managed by a life insurer is relatively old, sometimes poorly documented and encompassed under regulatory requirements relative to policy changes," says the report.[1] In addition, data migration and conversion projects are both expensive and time-consuming, and CIOs have trouble developing clear business targets and return on investment (ROI) objectives for these projects.

Insurers must deal with their legacy environment if they want to stay relevant and competitive, meet regulations, speed new products and services to market and boost operational efficiency. Insurers have three basic options to move away from their very limiting legacy technologies. They can:

1. Horneman, Steve. "Minimizing the Risks Associated With North American Life Insurance Policy Data Migrations and Conversions." July 06, 2015.
https://www.gartner.com/doc/3087919/minimizing-risks-associated-north-american%5bgartner.com

Modernize their existing platform. There are many different approaches to core systems modernization, each with benefits and drawbacks. The most dramatic, the "big bang" or "rip and replace" method is the most risky, costly and disruptive, and requires that the insurer completely replace its entire network of older applications with modern systems, providing improved functionality. A phased approach to a big bang modernization results in the same new system, but is less risky and disruptive since the insurer would implement the new technologies gradually and not all at once. Insurers can also opt to simplify their environments or just wrap their legacy systems with a new technology layer. Both approaches are less risky, less expensive and less disruptive but they also are not necessarily a long-term fix.
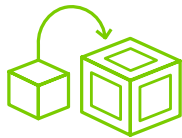
Migrate to a modern system. Migrating policies from legacy systems to a new system enables insurers to consolidate applications, save on operating and maintenance costs and boost system functionality. However, not only are system integration efforts very expensive, complicated and risky, these projects can significantly disrupt business as usual. Migrating data from legacy systems and applications on its own can be a headache. And it can be hard for insurers to justify the return-on-investment (ROI) for the increased agility of a migration that doesn't add capabilities.

Work with a third party administrator. A lower-risk and more cost effective option, moving the core administration system capabilities to a third party administrator (TPA) enables an insurer to focus resources on core competencies and concentrate on high-level business goals instead of rebuilding, replacing and maintaining their systems. Working with an outside expert is also a cost-effective choice, since working with a TPA saves on software, hardware and development costs and can move the cost basis from a CAPEX to an OPEX model. A skilled and knowledgeable TPA can bring expertise to the effort that an insurer may not have in-house, and can more easily handle the complicated data conversion necessary in this type of project.

Conversions causes

But legacy modernization is not the only reason life insurers need to convert their data. In many cases, cutting costs is the driving factor to begin a conversion. Many insurers are still using old technology that's either becoming out of date or maintaining the system is becoming very expensive. Others are seeing that their mainframe development efforts will only go so far since the workforce is aging and the younger, Millennial workforce isn't interested in learning and working on old technologies. And still others do a conversion because it will enhance their business competitiveness. For example, adding a new product through a mainframe system is time-consuming and expensive, but launching a new product on a more efficient system can increase its speed to market. Another compelling reason for a data conversion project is to make new and existing data more accessible, more usable and more easily consumable.

Some conversions are triggered by specific events. Celent suggests a variety of events that are examples of business activities that could prompt a data migration and integration effort.[1] If they haven't already, most insurers may likely run into at least one of these situations.

1. Source: http://celent.com/reports/controlling-risk-insurance-data-conversion%5bcelent.com

Strategy change. Insurers that are striving to become more responsive to increasing customer demands for great service and products tailored to their individual needs, for instance, might want to change from a policy-centric approach to a customer-centric approach. Since multiple policy administration systems typically house different customer information, insurers would have to migrate and integrate their data to a single system.

Merger and acquisition (M&A). When two insurers join forces through an M&A, the new entity typically winds up with duplicate and redundant systems – and the need to convert and consolidate data onto a single platform.

Divestment. Divestiture can drive data conversion. As in an M&A, when an insurer divests part of its organization, it has to revisit its data requirements.

Product consolidation. Insurers are increasingly looking to simplify by consolidating products.

Core systems consolidation. Even if they haven't been through an M&A, insurers often run multiple systems that can serve the same or similar functions. Insurance organizations can realize significant savings by reducing the number of similarly-functioning systems, which requires converting data from several core systems into fewer systems.

Insurers delay conversions

No matter what their reason for the conversion, insurance organizations know they can benefit from converting their business off a platform. But while these insurers understand the potential benefits of converting their business, many are hesitant about actually jumping into the conversion process. Unfortunately, insurance organizations do not always have the luxury of delaying a data conversion for very long. Putting it off will only make it increasingly difficult for insurers to remain competitive.

Insurance companies are generally risk-averse and projects of this size and importance are inherently risky and impact employees, customers, and distributors. In some cases, insurers have very old products so they may not know what information is actually on their current system. The thought of converting these policies is very daunting when information is limited.

In addition to the cost, there are five key reasons insurers hold back from converting an existing block of business off of a platform.

Complexity. In general, the overall age and size of the block of business, the more complex a conversion will be.

Data quality. Data quality varies significantly from company to company. If an insurer has poor quality or disorganized data, the conversion can be more complicated. It will likely take longer and it will become more expensive.

Technology platform. The number and age of the technology platforms housing data can drive the overall complexity of the conversion.

Product type. Some products pose more complex conversion issues than others. For instance, converting blocks of fixed annuities is different than converting variable annuities, and converting term life policies may present different issues than converting a block of whole life policies. Similarly, some special features like complex death benefit riders also can complicate a conversion.

Age. The age of the block being converted can also be an issue. Conversion may be very difficult if the blocks of business are old and have either outdated or missing information.

While it's possible for insurers to perform a data conversion on their own, this type of project can be highly disruptive and risky, and insurers might lack the in-house expertise to accomplish the conversion without some outside help. Data must be extracted from the legacy system and moved to the new system. However, it's not as simple as moving information from one place to another. The data must be converted into a format that works with the new system, a process that can be costly and disruptive to any insurance organization. Gartner found that 70 percent of data center migration projects wind up experiencing unanticipated downtime or delays.[1] The problem is not due to errors in computational systems and servers but in the conversion process. Most insurance organization IT leaders don't have experience in the conversion process. Gartner recommends that organizations look to outside expertise if they find they don't have the necessary resources to successfully perform a data migration as a cost-effective and less disruptive method than attempting to do it in-house.

Insurers embarking on a data conversion can enjoy a greater likelihood of success by choosing the right partner for their project. The right partner can bring an outside perspective, experience and a positive conversion track record which make a conversion easier and more cost-efficient than an inside effort. And working with an outside partner with a proven, best-practice approach to data conversions can deliver valuable benefits like truly variable costs.

Three conversion approaches

An insurer must choose the right data conversion method to maximize its chances for success. In addition, the organization must bring the right people to the table that can perform the conversion quickly, reliably and successfully, with low risk and at reasonable cost.

There are three basic approaches to data conversion.

1

The first data conversion model requires moving the data from the old system to the target system. This common approach involves extracting the data, documenting business rules and then scrubbing, verifying and converting data onto the new system. While this has been a popular conversion model, this method is inherently risky and disruptive to the business since both old and new systems are tied up and unavailable during the conversion process.

2

A second approach involves setting up products on the target platform and then converting the data. While this conversion method is less disruptive and time-consuming than the first approach, it also ties up the new and old systems while the conversion takes place.

3

The third conversion methodology actually re-creates existing legacy system data before installing it on the new system. This approach significantly reduces the risk and disruption during the conversion process and minimizes any possibility of errors.

1. Cappuccio, David J. "Data Center Migrations — Five Steps to Success." March 26, 2014.
https://www.gartner.com/doc/3087919/minimizing-risks-associated-north-american%5bgartner.com

SE2's value proposition: transition – not conversion

SE2's agile conversion methodology follows the third approach. SE2 offers much more than typical data conversion, and uses a technique that transitions the data. SE2 doesn't even convert most of the data – it actually recreates the data, using proprietary tools to reconstruct the data on the new system.

This transition approach incorporates unique tools to reconstruct the data on the new system. SE2's approach is source platform-agnostic and requires only partial actual data conversion. SE2 sets up products as entirely new products not from existing systems, but from product specs of product actuaries. SE2 applies transactions in the new system, matching them to transactions running in parallel on the old system.
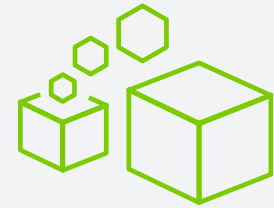
SE2 … actually recreates the data, using proprietary tools to reconstruct the data on the new system.

Customer successes

Using SE2's transition approach, life insurers have been able to successfully and efficiently move business off their legacy systems to a new environment with less risk and disruption.

Success Story: Moving to a low-cost model

A global asset manager and investment advisory firm was looking to move a closed block of 360,000 life and annuity policies it had acquired to a low-cost service model while restarting distribution with IMOs and banks. The complex products were older, had poor documentation and many exceptions, and the contracts resided on nine different administration platforms.

SE2 launched concurrent work streams to convert the existing policies and launch new products for distribution, breaking down the closed block conversions into two concurrent projects, one for the life products and another for the annuities.

approximately

2 Billion

in premium over the two-year period

SE2 completed the life and annuity conversions in 17 and 24 months, respectively. The company was able to develop its first new product in six weeks and implemented it three months after SE2 came aboard. Before the conversions were complete, the organization implemented two additional products, resulting in approximately $2 billion in premium over the two-year period. This company has transitioned their closed blocks to the SE2 platform and is actively distributing new products, bringing the firm an expected $80 million savings in administration costs over the next decade.

Success Story: Fast implementation, lower administrative costs

When a global investment banking, security and investment management firm entered the life and annuity reinsurance business and acquired another firm, it needed to convert blocks of 350,000 policies. The products were complex, with multiple money sources, varying fixed interest credit methodologies, ERISA and non-ERISA loans and a varying distribution channel and included variable and fixed annuities and variable universal life and traditional life products.

The reinsurance firm turned to SE2 for end-to-end administration services, which followed an aggressive and reliable 12-month implementation timeline to achieve the benefits of and honor the contractual obligations of the reinsurance transaction. SE2 leveraged its strong implementation methodology to transition the block of business to SE2's end-to-end Platform BPO model, launching three concurrent project tracks for the multiple product lines to meet the aggressive timelines.

The conversion implementation was successful for all three product tracks. SE2 implemented each individual track in four, eight and five months, respectively, well within the 12-month project timeline, and the company realized a significant reduction of more than 60 percent in administrative costs, creating a strong return on investment (ROI).

> SE2's end-to-end Platform BPO model, launching three concurrent project tracks for the multiple product lines to meet the aggressive timelines

Success Story: Forging a platform BPO relationship

A major U.S. life insurer wanted to convert a block of acquired business that included more than 1,000 variable annuity plan codes and products, more than 260,000 contracts and more than 4,000 fund pricing streams. The transaction's contractual obligations dictated an aggressive and reliable timeline for the conversion.

The insurer chose a Platform BPO relationship approach to minimize the impact to the internal IT and the business and selected SE2 to provide end-to-end administration services. This strategy enabled the insurer to move forward on its strategic IT and business initiatives without the distraction and disruption of a conversion. The insurance organization was able to launch products uninterrupted, resulting in a competitive edge over other carriers in the variable annuities space. The conversion of this complex block of business exceeded all expectations and provided the company with variable, predictable and efficient product pricing. SE2 met all service levels within the first month after conversion.

A Unique Reconstruction Approach to Conversion
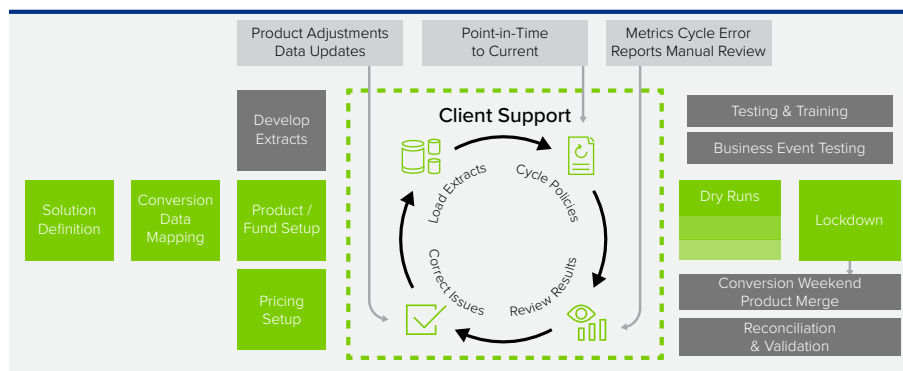
The SE2 Advantage

Data conversion efforts no longer have to be unavoidably risky, severely disruptive or prohibitively expensive. A smart, agile and best-practice approach to the conversion and a partner that can bring a fresh perspective and an innovative transition approach to the process will help insurance organizations successfully meet their most strategic data-related objectives.

Life insurers look to SE2 for more than merely its innovative transition tools and technologies. SE2's best practices, developed over many years of insurance organization implementations, are key to a critical success factor for these projects. These best practices can lead to significant cost-per-policy administration savings while maintaining or surpassing insurers' previous service levels.

SE2 uses change management to shift each client from its inefficient model to its efficient, customer centric technologies and processes. SE2 then trains call center and operations associates with proven techniques so they are able to deliver optimal service, resulting in tangible results including reduced costs and measurable service improvements.

For more information on SE2 Life Insurance Factory for Transition (SE2 LIFT), and to learn more about how SE2 can help your organization with a data transition project, please visit us at www.se2.com.

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For more information on how SE2 can give your organization a competitive edge, contact SE2 at **1.800.747.3940** or **info@SE2.com**.